

**GLOBAL ECONOMIC AND  
TECHNOLOGICAL CHANGE:  
JAPAN AND THE ASIA-PACIFIC  
REGION**

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**HEARING**

BEFORE THE

**SUBCOMMITTEE ON ECONOMIC GOALS  
AND INTERNATIONAL POLICY**

OF THE

**JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES**

**ONE HUNDRED SECOND CONGRESS**

**SECOND SESSION**

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**JULY 22, 1992**  
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# GLOBAL ECONOMIC AND TECHNOLOGICAL CHANGE: JAPAN AND THE ASIA-PACIFIC REGION

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WEDNESDAY, JULY 22, 1992

CONGRESS OF THE UNITED STATES,  
SUBCOMMITTEE ON ECONOMIC GOALS AND INTERNATIONAL POLICY,  
JOINT ECONOMIC COMMITTEE,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:00 a.m., in room 2203, Rayburn House Office Building, Honorable Lee H. Hamilton (vice chairman of the Committee) presiding.

Present: Representatives Hamilton and Scheuer.

Also present: Richard F. Kaufman, general counsel; Mark Forman and Charla Worsham, professional staff members.

## OPENING STATEMENT OF REPRESENTATIVE HAMILTON, VICE CHAIRMAN

REPRESENTATIVE HAMILTON. The Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee will come to order this morning in order to examine Japan's role in the economies of the Asia-Pacific region and the consequences for the United States.

We are fortunate to have before us a distinguished panel of experts to discuss these issues and other aspects of our economic relations with Japan and other Asian powers. Dr. Richard P. Cronin is a specialist in Asian affairs with the Congressional Research Service of the Library of Congress. He has contributed a paper entitled "A Japan-Dominated Asia-Pacific Region?" to the Joint Economic Committee's 1990 compendium of studies on Japan's economic challenge.

Robert E. Driscoll is president and executive director of the US-ASEAN Council for Business and Technology, a nonprofit organization, whose members are business firms with trade and investment interests in the Asian-Pacific region. Dr. Hugh Patrick is a professor of international business and director of the Center on Japanese Economy and Business at the Columbia University Graduate School of Business. He is a leading scholar of the Japanese economy and Pacific basin economic relations, and is a member of the U.S. National Committee for Pacific Basin Economic Cooperation.

Gentlemen, we are very pleased to have each of you with us. We look forward to your statements. Those statements, of course, will be entered into the record in full. We would ask that you keep your opening remarks to not more than 10 minutes so that we can turn to questions.

Before you begin, the Chair, without objection, will enter into the record a statement on "The United States and Japan Can Work Together for Peace" by Congressman Stark.

[The written opening statement of Representative Stark follows:]

## WRITTEN OPENING STATEMENT OF REPRESENTATIVE STARK

### The United States And Japan Can Work Together For Peace

WASHINGTON—The United States should begin now to work with Japan, survivor of the only nuclear war to date, on the greatest project the world can imagine: a collectively enforced peace, and the elimination of all nuclear weapons from the face of the earth.

Real progress can be made by 1995, the 50th anniversary of the founding of the United Nations—and the 50th remembrance of the atom bombing of Hiroshima and Nagasaki. That year also will see the nations that entered into the Nuclear Non-Proliferation Treaty in 1970 gather to renegotiate and extend it.

We can capitalize on this coincidence of events by strengthening the United Nations Charter, and at the same time agreeing that the next step in the evolution of civilization is the renouncement of nuclear weapons.

Japan, which became our close ally in the Cold War struggle, is our ideal partner for leading the world in this effort.

Japan is the only nation that has endured the nightmare of nuclear explosions. As the country which has suffered the most and the one which has renounced militarism, Japan has a moral authority that can draw the nations of the world together in this cause.

One could envision a World Conference in Japan—a Hiroshima or Nagasaki—in which the goal is established of eliminating nuclear weapons and concrete steps are started to achieve that end.

These steps could include a greatly strengthened Nuclear Non-Proliferation Treaty, an end to nuclear testing by all nations, an improved International Atomic Energy Agency (IAEA) that would truly safeguard and monitor nuclear activities, with a stronger UN that would back up the IAEA's inspectors—by force if necessary.

The goal of this endeavor is breathtaking. The actual steps are slow, even unexciting, and could take 20 or 30 years to fully implement. But this long journey could eventually lead to a new world, free of Mutually Assured Destruction, free of the specter of charred cities and blackened skies, free of the horrifying possibility that civilization as we know it could end on just 20 minutes notice.

But this is more than just a noble and lofty pursuit—it is also staunchly in the national interests of the United States and other democratic countries. During the Cold War, nuclear weapons worked to our strategic advantage, by deterring overwhelming Soviet superiority in tanks and armed forces in Europe, the Far East, and elsewhere. But with the collapse of the USSR, we no longer need to exert a nuclear umbrella over ourselves or our allies.

Today, the leading military threat to the United States, Japan, and Europe is nuclear weapons in the hands of independent despots like Saddam Hussein. For these regimes, the bomb is their great equalizer against our conventional military superiority—the Gulf War would have been very different had we faced a nuclear-armed Iraq. A strict global regime to prevent all countries from building the bomb will help us avoid a future nightmare involving nuclear blackmail. As long as it's verifiable, such an agreement will work in our strategic interests.

In June, the U.S. House of Representatives made an important move in the right direction by passing the Nuclear Weapons Reduction Act as part of the 1993 Defense bill. This plan, developed by Reps. Nick Rahall of Massachusetts, Dante Fascell of Florida, Lee Hamilton of Indiana, Lane Evans of Illinois and myself, establishes a blueprint for reducing and eventually eliminating the nuclear arsenals of all countries through a stage-by-stage process. In the near future, the United States and Russian arsenals could be reduced to 1,000 to 2,000 warheads each, with further cuts depending on progress on the non-proliferation steps outlined above.

But Japan may be the nation best suited to lead this movement. Historically, it seems to have been one of the few societies on earth which developed extraordinary capability in a high-technology weapon—and then essentially banned that weapon. Japan's use of firearms in the sixteenth and seventeenth centuries was at the cutting edge of mass destruction, but by the time of Commodore Perry's arrival in 1853 such weapons had been made almost taboo.

As history also shows, however, such progress towards peace must be reinforced or it can be reversed. Today, Japan and the United States often seem locked in a downward spiral of finger-

pointing and name-calling. Japanese phrases like *Kenbei* and *bubei* translate as contempt and evenhated of American ways, while on our side public officials who should know better crack sick jokes about World War II.

But we should remember: Trade fights come and go. Trade deficits swing from month to month—and in the long run history will little note nor long remember. What mankind would always remember is leadership to move the world out of the nuclear arms nightmare.

Instead of spending all our energy in trade disputes, let us commit ourselves to working on something that will be of importance for all future generations. In a partnership with Japan for arms control and peace, 1995 could be the beginning of a new age. There could be no greater way to remember those of all nations who died in the horror of World War II.

REPRESENTATIVE HAMILTON. Congressman Scheuer, do you have any opening comments?

REPRESENTATIVE SCHEUER. No, thank you, Mr. Chairman.

REPRESENTATIVE HAMILTON. Mr. Cronin, please begin.

**STATEMENT OF RICHARD CRONIN, CONGRESSIONAL RESEARCH SERVICE, LIBRARY OF CONGRESS**

MR. CRONIN. Thank you, Mr. Chairman. It is a pleasure to appear before the Subcommittee today.

I must comment on your mention of the paper on a Japan-dominated Asia that I did for the Joint Economic Committee compendium a couple of years ago. The title reads better than it sounds because it has a question mark at the end of it, and I would emphasize that in looking at this issue this morning.

Japan's expanding regional economic role and influence now receives a little less American attention than it did a few years ago, as a result of the partial retreat of Japanese business investment worldwide. However, the Asian-Pacific region occupies a special place in Japan's economic strategy. Not only has the fall-off in Japanese investment in Asia been less than in other regions, but the Japanese Government and industry are gearing up for a major push into Coastal China, Eastern China, and even South Asia, in what appears to be a never-ending search for cheaper labor and new markets.

REPRESENTATIVE HAMILTON. Are you using this statement?

MR. CRONIN. I have a shorter version that I can let you have, sir.

REPRESENTATIVE HAMILTON. It will be helpful if you did. Do you have copies of it?

Thank you very much.

MR. CRONIN. You posed a number of important questions regarding the growth of Japan's regional role. I have addressed them in more detail in the statement that I submitted for the record. In the interests of time, I will discuss them more briefly in my oral statement.

During the past decade, but especially since the dramatic rises in the value of the Japanese yen, Japan has emerged as a core economy of the Asian-Pacific region on the basis of large-scale investment, aid and trade. Japanese offshore investment in the Asia-Pacific region rose from about \$2 billion in Japanese fiscal year 1985 to a peak of \$12.9 billion in fiscal year 1989, after which it began to subside, falling to a still impressive \$9.2 billion in fiscal year 1991.

It is probably excessive to say that Japan dominates the Asian-Pacific region economically, but it has been termed the core economy of the region for some cogent reasons. It is overwhelmingly the biggest economy, the largest export market for Asian countries after the United States, and the largest aid donor. It is also the organizing center for much of the export-oriented manufacturing activity in the region, and all the countries in the region, including Japan's industrial competitors, among what we call the newly industrialized economies, or NIEs, are to varying degrees technologically dependent on Japan.

The physical evidence on the ground of Japan's rising economic presence is even more impressive. One only has to look around Asian cities and

industrial zones, especially in Southeast Asia, to see the overwhelmingly predominance of the Japanese multinationals.

Basically I have made the point in my statement that Asia occupies a special place in Japan's economic strategy. If you look at North America, Japan's investment strategy has been, to a certain extent, to get around what are seen as protectionist barriers, or to take advantage of investment opportunities. Europe is the same, with investment primarily focused on getting around trade barriers. But in Southeast Asia and elsewhere in Asia, Japan is particularly focused on manufacturing investment in order to provide both a spring board into the global market and to maintain Japan's economic competitiveness, and also to gain an opening point for penetration of the regional market. Manufacturing makes up a much higher proportion of Japanese investment in Southeast Asia than it does in other parts of the world.

While Japan's investment in Asia rose rapidly during the 1980s, U.S. investment was largely moribund, apart from the petroleum sector. Comparisons are difficult due to substantially different methods of data calculation. However, between 1986 and 1991, Japanese companies added \$34 billion in new direct investment in Asia alone, or about two-thirds of Japanese investment in the region since the war. During approximately the same period, U.S. companies had a capital outflow to Asia of about \$8.8 billion and the net U.S. investment position, which takes into account reinvested earnings and other transactions, increased by about \$10 billion. Thus, even allowing for methodological problems, this is about a three to one differential.

The reasons for the lagging U.S. position are complex. In part, U.S. companies have been slow to target the rapid growth of national and personal incomes in the Asia-Pacific region. At base, however, the underlying reason for disparity is probably as much related to the overall low savings investment rate in the United States generally, as to anything else. No doubt Mr. Driscoll will have more to say about this particular point.

Japan and the United States are by no means the only players. The newly industrialized economies—the four Asian tigers—have also become important offshore investors in the Asian-Pacific region. The Asian NIEs face the same problems as Japan; rising currencies and domestic costs, and their companies likewise are going offshore to remain competitive.

Taiwan has emerged as the largest investor in Malaysia in the past several years, and Hong Kong is the predominant investor in China's burgeoning export zone in Guangdong Province.

Japan is also the dominant aid donor to the region. Japan is both the much larger donor to the poor countries, as well as a major donor to some of the more dynamic ones, including Indonesia, China and Thailand, which receive little or no U.S. aid.

Japan's aid is primarily focused on infrastructure development projects that support its private-sector investment objectives. This has important consequences for its commercial position.

The signs of Japan's emergence as a regional leader are also evident in Japan's growing willingness to speak for Asian countries and cautiously challenge U.S. assumptions on how to deal with problem countries such as China, or how best to promote economic development. Asian countries tend to find the Japanese model more attractive, and it is also more congenial. The



Japanese pattern is more congenial to their already well-developed bureaucracies and political party machines that, in some cases, are tied to local business interests.

In varying degrees, the most dynamic economies of the region have either patterned their economies on the Japanese model or sought to accommodate themselves to Japanese companies' offshore investment strategies.

How we should regard Japan's rising influence in Asia is a matter of some contention. After all, the United States and Japan still appear to be a long way from outright trade wars and the creation of exclusive economic zones or any conceivable source of military rivalry, let alone conflict.

I see the stakes for the United States in this issue as involving two principal concerns. First, how much influence will the United States retain over the rules of the game of Asia-Pacific and global commercial, political and security interactions?

Second, and related, what are the specific implications for U.S. trade and economic interests in the Asia-Pacific region and the broader economic objectives in the United States?

Let me be more specific by addressing some of the questions you posed in your letter of invitation to participate in this hearing. For the moment, I think it is fair to say that there is a potential problem that would materialize as part of a move towards regional economic blocks in Europe and North America, rather than one initiated by Japan.

Japan is forging an area of economic influence in Asia and assuming a greater leadership role, but it doesn't really look like a trade bloc *per se*. It is not an exclusive system, right now.

One of the main reasons that keeps Japan from pushing for any kind of exclusive trade zone is that the U.S. market is still the single largest prize for Japan and other Asian countries.

By one account, for instance, when the flow of goods from Japan to the United States through third countries in East Asia is traced, it shows that about 70 percent of Japan's trade surplus is American in origin. In other words, the Japanese invest offshore, that brings in its train a flow of capital goods, parts and components to factories overseas. The output of those factories is then directed to other markets, including the U.S. market. So a kind of triangular pattern has developed.

Increasingly, however, Japanese policymakers have started to play the regionalism card, partly in response to the concerns about the negotiation of a North American Free Trade Area that might discriminate against Asian producers and investors.

By tacitly or actively encouraging the formation of an Asian consensus, they may see the opportunity to gain some leverage on the United States and to reduce Japan's own vulnerabilities to U.S. pressures. Such objectives appear to lie behind Japan's equivocal reaction to Malaysian Prime Minister's proposal for an economic group that would exclude the United States, Canada, Australia and New Zealand. While Japan joined the United States in publicly opposing the plan, some suspect Japan of privately encouraging the idea. Another interpretation is that the Japanese Government is divided on the issue.

While those who now dominate policymaking generally profess continual support for an open global trading system, some analysts see a worrying psychological attachment to the idea that Asia is the place where Japan should work out its destiny. One can discern a rising popular fixation on the "Asian option."

For many U.S. analysts, the question of the moment is whether Japan's increasing role as a core economy may inhibit the prospects for U.S. business interests in Asia and the Pacific region. This is a difficult question to answer, but preliminary data, much of it admittedly anecdotal, suggests that Japanese actions are less important than U.S. business in action.

U.S. exports to Asian economies are growing rapidly, much faster in fact than the growth of U.S. imports. Trade figures do not suggest that U.S. companies are being squeezed out. Rather, they suggest that rising incomes in the region, which are partly the result of growing Japanese aid and investment, have created an expanding market for all players. The United States is gaining in an expanding sum situation, but Japan is gaining faster.

To date, the main limitation on the prospects for U.S. business in the region are inadequate investment and effort on our part. Certainly, all of the Asian countries are eager to attract U.S. investment and business as a balancer to Japan's role.

There are, however, three aspects of Japanese economic involvement in Asia that are clearly matters of legitimate U.S. concern. First, Japanese companies have a decided advantage in competing for infrastructure businesses, funded by Japanese official development assistance and soft loans from the Japanese Export-Import Bank.

Second, the combination of the strategic focus of Japanese aid on infrastructure development gives Japanese industries the opportunity to become dominant players in important high technology and capital goods sectors, such as telecommunications, thermal and hydroelectric power.

Further, companies are put at an additional disadvantage by the Japanese *Keiretsu* system of cross investment among companies within large corporate groups. This system limits the ability of U.S. companies to work as partners with Japanese companies in Asian projects.

None of these situations are a bar to U.S. companies making their own investments or, when financing is available, getting contracts for U.S.-aided projects, however.

The above discussion raises a number of important policy issues, most of which are matters of great controversy and debate. Rather than wade into a discussion of alternative U.S. trade and economic competitiveness, and foreign economic policies, I would just indicate the areas where policy attention would seem to be required.

Whether the United States has had a sufficiently integrated policy toward Japan is a matter of active and often partisan debate. Americans have a hard time in achieving consensus in how to deal with pressing foreign economic policy issues, and this is no more apparent than in regard to U.S. policies toward Japan and other Asian trading partners and allies.

Given a weak U.S. economy and a lack of consensus about addressing fundamental problems, one can construct a credible defense of recent U.S. policy toward Japan. However, I would note two fairly strong criticisms.

First, the apparatus of the Executive Branch for dealing with Asian-Pacific issues still bears the hallmarks of a national security state, not one with a focus on geoeconomic interests. An argument can be made that the United States Government has not had any satisfactory institutional mechanism for addressing these multifaceted issues.

Second and related is a matter of mental outlook on the part of U.S. policy-makers. We tend to have a right-brain/left-brain problem in looking at these issues. The right-brain people tend to think about power relationships, geopolitics, and security alliances, etc., and don't think much about the economic underpinnings of that power, except in the context perhaps of the defense industrial base, which they do worry about. Then the left-brain people tend to look at economic issues, or geoeconomic issues, and focus on trade questions without thinking much about the role that the U.S. political position in the region, or the U.S. security role, contributes to the larger systemic functioning of our relationships with Asia and the Pacific. They assume these things will take care of themselves.

Well, I would argue that we need to have a more systemic approach and broader understanding of how these issues are interrelated. Many would agree that both the Administration and Congress have tended to deal with the broader issues relating to Japan and the Asia-Pacific region in a parochial or piecemeal fashion with insufficient regard to the interrelationships of the economic, political and security factors.

The relative shift of power and influence of Japan in recent years has raised a number of specific policy issues. Time does not permit a discussion of the pros and cons. Among these issues are whether U.S. business should be getting more support from the U.S. Government and what kind, whether the United States should get back into infrastructure project aid and provide more below-market funding to the Export-Import Bank, and whether the United States should take a more activist role in the 15-member Organization for Asia-Pacific Cooperation—APEC—and the future of the U.S. security role in the region. I would be happy to address these questions later.

Thank you very much for your time and attention.

[The prepared statement of Mr. Cronin follows:]

## PREPARED STATEMENT OF RICHARD P. CRONIN

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## **INTRODUCTION**

It is a pleasure to appear before the Committee today to discuss recent trends regarding Japan and the Asia-Pacific region. You have posed a number of important questions regarding the growth of Japan's regional role and the implications for U.S. interests and policy. I will address them in a systematic fashion, first by detailing the growth of Japan's economic role and regional activism, and then by examining some of the consequences of those developments for U.S. interests and policy choices in the areas that you have identified.

## **TRENDS IN JAPAN'S TRADE AND INVESTMENT IN THE REGION**

During the past decade, but especially since the dramatic rise in the value of the Japanese yen following the September 1985 Plaza Accord, Japan has created a very solid economic position in the Asia-Pacific region based on large scale aid and investment. It is probably excessive to say that Japan dominates the Asia-Pacific region economically, but it has been termed the "core" economy of the region for some cogent reasons: it is overwhelmingly the biggest economy, the main source of regional imports, the largest export market for Asia-Pacific countries after the United States, and the largest aid donor to the developing countries of the region; it is the organizing center for much of the export-oriented manufacturing activity in the region; and all of the countries of the region, including Japan's industrial competitors among the Newly Industrialized Economies (NIEs), are to varying degrees technologically dependent on Japan.

## **Rapid Growth of Japanese Offshore Investment**

The accord on currency realignments, which was concluded by the finance ministers of the G-5 group at the Plaza Hotel in New York in September 1985, had a profound effect on Japan's regional economic role. The currency accord had the effect of nearly doubling the value of the yen against the dollar during the period 1986-87. This made Japanese manufactured goods more expensive, but also greatly increased the dollar value of Japan's aid budget and the investment buying power of the yen. One result was a dramatic surge in Japan's offshore investment in the Asia-Pacific region that is just now subsiding.

Annual new Japanese foreign direct investment (FDI) in the Asia-Pacific region rose from about \$2 billion in Japanese fiscal year 1985 to a peak of \$12.9 billion in FY 1989, after which it began to subside, falling to a still impressive \$ 9.2 billion in FY 1991. (Table 1) Cumulative Japanese FDI in the Asia-Pacific region totalled \$90 billion as of March 31, 1992, the end of Japanese fiscal year 1991. This includes about \$53.5 billion in Asia and \$21.4 billion in Oceania, which includes Australia, New Zealand and the Pacific Islands. This compares with \$155.0 billion Japanese investment in North America and \$68.6 billion in Europe.

TABLE 1

**JAPANESE DIRECT INVESTMENT IN ASIA AND OCEANIA, FY 1985-91**  
(U.S. Dollars in Millions)

	FY85	FY86	FY87	FY88	FY89	FY90	FY91	Total FY81-90	U.S. Investment Position, Yearend 1991
<b>E. Asian NIEs</b>	<b>379</b>	<b>1,229</b>	<b>2,086</b>	<b>2,517</b>	<b>2,998</b>	<b>2,515</b>	<b>1,590</b>	<b>18,809</b>	<b>11,292</b>
Hong Kong	131	502	1,072	1,662	1,898	1,785	925	10,775	6,430
South Korea	134	436	647	483	606	284	260	4,398	2,392
Taiwan	114	291	367	372	494	446	405	3,136	2,470
<b>ASEAN</b>	<b>936</b>	<b>866</b>	<b>1,525</b>	<b>2,718</b>	<b>4,684</b>	<b>4,082</b>	<b>3,696</b>	<b>31,133</b>	<b>12,682</b>
Brunei	1	1	1	-	-	-	-	109	-8
Indonesia	408	250	545	586	631	1,105	1,193	12,733	3,458
Malaysia	79	158	163	367	673	725	880	4,111	1,440
Philippines	61	21	72	134	202	258	203	1,783	1,672
Singapore	339	302	494	747	1,902	840	613	7,168	4,313
Thailand	48	124	250	859	1,276	1,154	807	5,229	1,787
<b>China (PRC)</b>	<b>100</b>	<b>226</b>	<b>1,226</b>	<b>296</b>	<b>438</b>	<b>349</b>	<b>579</b>	<b>3,402</b>	<b>350</b>
<b>Other Asia</b>	<b>20</b>	<b>16</b>	<b>32</b>	<b>43</b>	<b>118</b>	<b>108</b>	<b>71</b>	<b>611</b>	<b>893</b>
<b>Asia</b>	<b>1,435</b>	<b>2,327</b>	<b>4,868</b>	<b>5,569</b>	<b>8,238</b>	<b>7,054</b>	<b>5,936</b>	<b>53,455</b>	<b>25,197</b>
<b>Oceania</b>	<b>525</b>	<b>992</b>	<b>1,413</b>	<b>2,669</b>	<b>4,618</b>	<b>4,166</b>	<b>3,278</b>	<b>21,376</b>	<b>18,419</b>
Australia	468	861	1,222	2,413	4,256	3,669	2,550	18,613	15,627
New Zealand	23	93	21	117	101	231	236	1,161	2,809
Pacific Islands	34	18	70	139	261	266	492	1,110	-17
<b>Total Asia-Pacific</b>	<b>1,960</b>	<b>3,319</b>	<b>6,281</b>	<b>8,238</b>	<b>12,856</b>	<b>11,220</b>	<b>9,214</b>	<b>74,831</b>	<b>43,616</b>

Source of Data: Japanese Ministry of Financial Statistics; U.S. Department of Commerce, Survey of Current Businesses. See text for a discussion of serious methodological limitations of investment data comparisons.

The post-1989 slowdown in new Japanese offshore investment was a worldwide phenomenon, caused in large part by the bursting of what is now called the economic "bubble" of the late 1980s. This phenomenon has caused capital to flow back to Japan to cover the fall in the value of assets held by Japanese banks and corporations. Slower growth in Japan's regional investment also coincided with the completion of some major industrial relocation projects, growing infrastructure bottlenecks in some target countries like Thailand and Malaysia, and slack global demand for the staples of Japan's consumer goods industries.

Asia occupies a special place in Japan's economic strategy, although as a region it lags behind North America and Europe as a target of Japanese FDI. In the face of the higher yen and a serious domestic labor shortage, Japanese companies moved rapidly to relocate high labor-content production to countries such as Thailand, Malaysia and more recently, Indonesia and coastal China. Japanese companies took these actions both to maintain their competitiveness in global markets and as an entry point into the growing, but still protectionist, regional markets.

During the period FY 1985-1991 Japanese companies added some \$35.4 billion in new direct investment in Asia, much of it focused in Southeast Asia, where favorable economic policies and relatively low labor costs have combined to attract foreign investment and fuel rapid export-led growth. A casual survey of low end Japanese consumer electronics goods and cameras in the market today will show that while the name may be Sony, Cannon or Sharp, the country of origin is likely to be Malaysia, Thailand or China.



In one sense, by investing in offshore production in Asia Japan shifted part of its trade surplus with the United States into other countries' accounts. While its own exports to the United States were stagnating, Japan was greatly increasing its exports of capital goods, parts and components to the host countries for Japanese offshore production. The investment target countries, in turn, saw a rapid increase in their own exports to the United States. In 1985, when the yen was still low compared to the dollar, Japan accounted for 54.7 percent of total Asian exports to the United States, versus 45.3 percent for the other Asian countries. By 1991 the ratios had reversed, with Japan accounting for 47.0 percent and the other Asian countries accounting for 53.0 percent.

This is what economists would call the effect of shifting comparative advantage, based on changing cost factors. A more detailed analysis would probably show the most dynamic change involving Japan and three of the four ASEAN developing countries -- Thailand, Malaysia, and Indonesia. This group has experienced proportionately the fastest growth in Japanese investment, and, apart from China, they have experienced the fastest rate of export growth to the United States since the mid-1980s. (See appendix A)

The most noteworthy aspect of the phenomenon may be less the validation of economic theory, but the fact that much of the growth of global manufactures exports by these countries is financed and controlled by Japanese multinationals. This need not be viewed as a sinister development; much the same thing probably occurred when U.S. companies began to produce offshore in Europe and elsewhere in the 1960s and 1970s, sparking fears of American economic dominance. It is, however, a new competitive factor that U.S.-owned companies must deal with.

## **Lagging U.S. Investment Position**

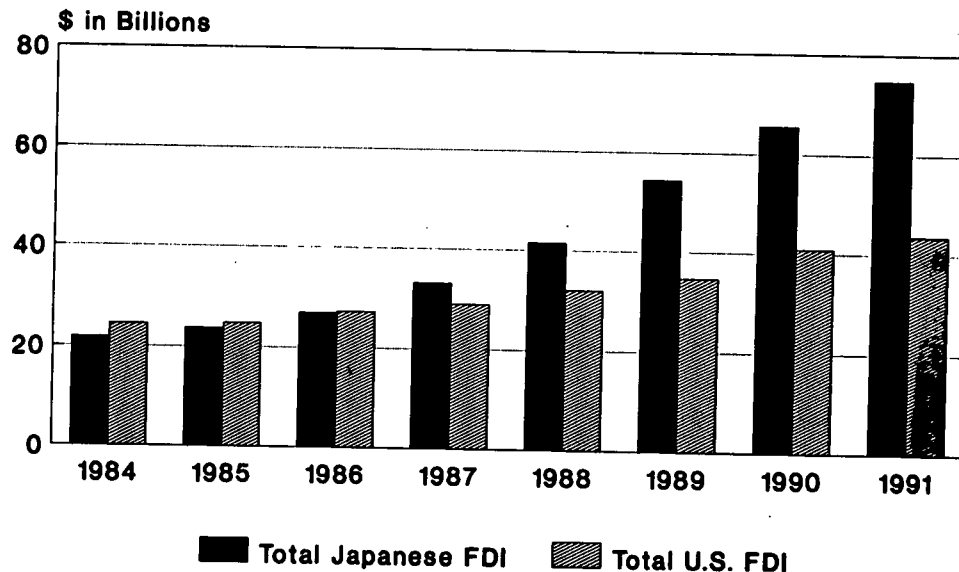
While Japanese investment in Asia rose rapidly during the 1980s, U.S. investment was largely moribund, apart from the petroleum sector. As indicated in Table 1, the U.S. investment position in Asia totalled about \$ 25.2 billion as of the calendar 1991, versus the cumulative investment total for Japan of \$ 53.5 billion as of the end of Japanese fiscal year 1991. U.S. investment in Oceania (largely Australia) totalled \$ 18.4 billion as of calendar 1991 versus \$ 21.4 billion for Japan in FY 91.

The change in U.S. and Japanese investment positions is portrayed graphically in the following two charts. Chart 1 makes a rough comparison of the change in the total investment positions of the United States and Japan from 1984 to 1991, including their respective investment positions in the ASEAN countries. Chart 2 compares the annual change in the U.S. investment position in the Asia region alone (excluding Japan), with annual new Japanese FDI in the same countries for the period 1985-1991. I hasten to add that the statistics on which these tables and charts are based need to be used with great caution, due to substantially different U.S. and Japanese methods of collection and calculation.<sup>1</sup> The trend lines make clear, however, that a dramatic shift in the respective new investment positions has been underway.

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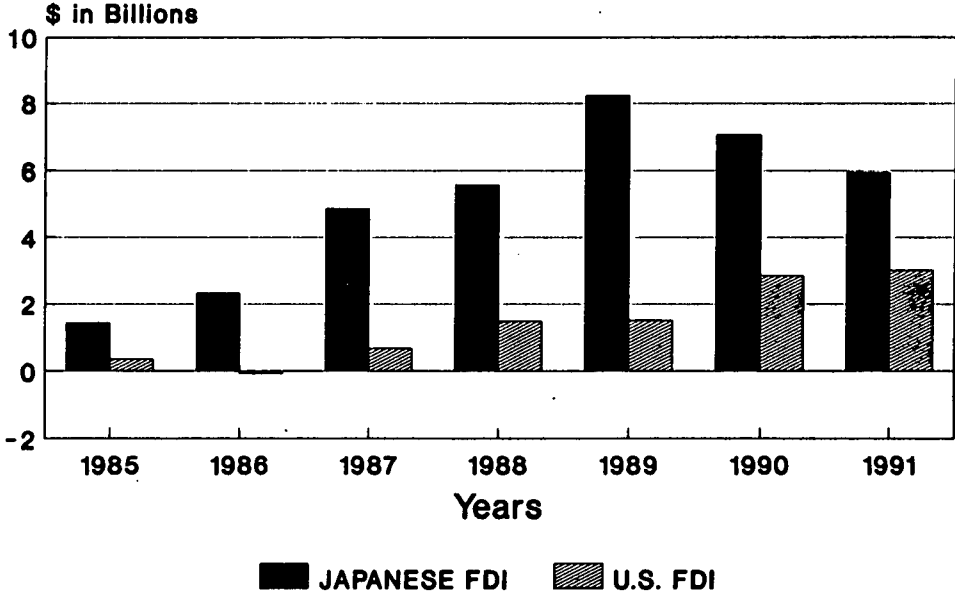
<sup>1</sup>In brief, Japanese data represent notifications to the Ministry of Finance of companies' intent to carry out investments during the relevant fiscal year (begins April 1 of the same calendar year.) Data are on an equity basis, but do not include reinvested earnings or any subsequent disinvestment. The cumulative total for Japan are simply the sum of annual reported data since FY 1951. U.S. data reflect the equity position of U.S. companies as reported to the Department of Commerce, adjusted for annual capital flows and reinvested earnings. U.S. data are on a calendar year basis.

**Chart 1. Cumulative Japanese and U.S.  
Foreign Direct Investment (FDI) in the  
Asia-Pacific Region, 1984-1991**



Source of Data: Japanese Min. of Fin.  
and U.S. Dept. of Com. FDI comparisons  
should be used with caution. See text.

Chart 2. Annual New Japanese and U.S. Investment in Asia, 1985-91



Data Sources: U.S. Dept. of Com. and Japanese Min. of Fin. FDI comparisons should be used with caution. See text.

The reasons for the lagging U.S. position are complex. Moreover, there is one school of thought that tends to regard offshore investment as having mixed effects on U.S. employment and economic activity anyway. Most analysts, however, would argue that due to a variety of trade barriers and market factors, including the strong Japanese presence, investment in the region is an essential requirement for successful exporting. In part, U.S. companies have had different strategic needs and priorities, and in part they have been slow to target the rapid growth of national and personal incomes in the Asia-Pacific region. At base, however, the underlying reason for the disparity probably is as much related to the overall low savings and investment rate in the United States generally, as to anything else. No doubt Mr. Driscoll will have more to say on this point.

### **Predominant Aid Donor to Asia and the Pacific Islands**

In addition, to its direct investment, Japan is also the dominant aid donor to Asia, providing about \$4.0 billion annually to compared to about 1.2 billion for the United States. In the recent past, most U.S. aid to Asian countries went to Pakistan and the Philippines. Those programs are now in sharp decline as a consequence of the military withdrawal from the Philippines and Pakistan's nuclear transgressions. Remaining U.S. aid programs provide food aid and generalized development assistance to the poorest countries.

Japan is both a much larger donor to the poorest countries as well as a major donor to some of the more dynamic ones, including Indonesia, China and Thailand, which receive little or no U.S. aid. Moreover, Japan's aid is primarily

focused on infrastructure development projects that support its private sector investment projects. This has important consequences for its commercial position, as I will discuss later.

### **Growing Japanese Assertiveness and Activism**

The signs of Japan's emergence as the regional "core" economy are visible in every Asian city and industrial zone. They are also evident in Japan's rising regional political role and growing willingness to speak for Asian countries and cautiously challenge U.S. assumptions about how to deal with problem countries such as China, or how best to promote economic development. Japan has long been the dominant influence in the Asian Development Bank and has started to take issue with the United States over development strategies in the World Bank and IMF. Its own close relationships between government ministries and industry are attractive to Asian governments, which increasingly appreciate the value of private market forces but find the Japanese model of guided industrial development more attractive than the American emphasis on private sector-led development.

In varying degrees, the most dynamic economies of the region have either patterned their economies on the Japanese model, or consciously sought to accommodate themselves to Japanese companies' offshore investment strategies. For all intents and purposes, some countries' industrial policies appear practically to be made in Tokyo.

Japan maintains a close working relationship with the ASEAN countries that increasingly extends to international political issues of concern to them.

The most recent examples are passage of the controversial UN Peace Cooperation Bill by the Japanese Diet, in June, that will facilitate the limited participation of Japanese Self Defense Forces in peacekeeping activities in Cambodia, and Japan's hosting of the Tokyo conference on the reconstruction of Cambodia during the same month. Incidentally, out of \$ 880 million pledged by the group of 33 donor nations and 12 non-governmental organizations, Japan reportedly pledged \$ 150-200 million, including earlier commitments, and the United States pledged \$ 135 million.

### **Continuing Importance of the United States and the U.S. Market**

The United States remains a superpower with major economic involvement in the Asia-Pacific region, but by many measurements a role reversal occurred during the 1980s in which the United States and Japan switched places. Most of the indicators for Japan have been rising, while many of those for the United States have been declining, either in absolute terms or relative to Japan's.

The United States still clearly leads as the primary export market for most countries in the region, a position that many Americans would view in mixed or negative terms. Although many analysts have called attention to the fact that intra-Asian trade is growing faster than trans-Pacific trade -- a development that seems to point to reduced dependency on the U.S. market -- the shift is not as clear-cut as it might appear. Much of the increase in intra-Asian trade is made up exports of capital goods, parts and components to Japanese and NIEs' offshore subsidiaries, and intra-firm and intra-industry trade among those entities, not finished goods. The United States, not Japan, remains the main

target of the region's manufactures output. By one account, "when the flow of goods from Japan to the United States through third countries in East Asia is traced, it shows that about 70 percent of Japan's trade surplus is American in origin."<sup>2</sup>

The United States plays other vital roles as well. It remains the largest investor in the region after Japan, and U.S. companies historically have had a better reputation than that of the Japanese for transferring technology and using local managers. The United States plays an important and often unrecognized role in educating and providing work experience to hundreds of thousands of Asian engineers, scientists and business managers. During the academic year 1989-90, Asian students in U.S. colleges and universities numbered 208,110, of whom 54.1 percent were pursuing advanced degrees.<sup>3</sup> As a result, American companies and universities have benefitted from the talents of thousands of Asian scientists, technicians and business managers, while returned Asians occupy key roles in business, government and academia. These American-trained elites have played a key role in the trend towards market-oriented economic policies and their business and emotional ties to the United States are a positive source of U.S. influence in the region.

In other respects, Japan now gets more credit than the United States for its contribution to human resources development. First, Japanese companies are more ready to engage in joint ventures than are U.S. firms, creating a large pool

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<sup>2</sup>Kenneth S. Courtis, "Pacific Trade Imbalance to Expand Again," *Japan Times* (Weekly International Edition), May 20-26, 1991, p. 11.

<sup>3</sup>Date from the U.S. Institute of Higher Education (IIE), District of Columbia and New York, published in the *Chronicle of Higher Education*, Nov. 28, 1990, p. 11.



of local entrepreneurs and managers with Japanese connections. Second, many see Japan as doing a better job of training the second echelon of the work force, i.e., the middle managers, shop foreman and technicians. As the regional economies develop, the larger numbers of businessmen, managers and technicians who have been trained on the job or in Japan may have more negative impact on the prospects for U.S. economic and business interests than the positive influence of those who received a higher education in the United States.

The fact that the United States remains the most important military power in the region is also a source of influence, although this factor does not appear as important now as during the Cold War era. U.S. forces still play a key role in deterring conflict in the Korean peninsula and the United States plays an important role as an honest broker between its two East Asian allies, South Korea and Japan. Without such a U.S. role, inherent tensions in the Japan-South Korea relationship could be highly destabilizing.

Asians leaders are well aware that if the United States loses interest in the region economically its military role will not be politically sustainable in terms of U.S. domestic politics. The idea of Japan reemerging as a military power without a balancing U.S. role worries the leaders of a number of Asian countries. Some East and Southeast Asian countries are also concerned about China's future role, or about potential threats from smaller neighbors, and have begun a modest arms buildup. Ironically, therefore, a continuing American tendency to view the region mainly in geopolitical terms and a failure to adopt an effective strategy of economic involvement in the region ultimately could

undermine U.S. regional stability objectives as well as U.S. economic interests.

### **Growing Importance of the Asian NIEs**

In addition to the United States and Japan, the so-called Newly Industrialized Economies--the four Asian "tigers" of South Korea, Taiwan, Hong Kong and Singapore are also important players in the Asia-Pacific region. The Asian NIEs face the same problems as Japan of rising currencies and rising domestic costs, and their companies are likewise going offshore in order to remain competitive. Taiwan, for instance, has emerged as the largest investor in Malaysia in the past two years or so, as has Hong Kong in China.

South Korea and Taiwan in particular are under heavy pressure as a result of the U.S.-influenced upward revaluation of their own currencies in the 1987-88 time frame, rising labor costs and other input costs. South Korea ran a trade deficit with the United States and the world in 1991, the first in many years. Whether the NIEs respond to this pressure positively, by redoubling their efforts to raise their technology levels and shift high labor content production offshore, or negatively, by becoming more protectionist, will have considerable influence on the wider prospects for the Asia-Pacific trading system.

### **STAKES FOR THE UNITED STATES**

How we should regard Japan's economic preeminence and rising influence in Asia is a matter of some contention. After all, the United States and Japan still appear to be a long way from outright trade wars, the creation of exclusive

economic zones, or any conceivable source of military rivalry, let alone conflict. The crux of concerns in the United States has to deal with the elusive connections between economics, international politics and security affairs; about the future of a complex system that has served as the framework for several decades of highly dynamic Asia-Pacific economic growth with a relative absence of conflict.

I see the stakes for the United States in this issue as involving two principle concerns:

First, in the face of these trends, how much influence the United States will retain over the rules of the game of Asia-Pacific and global commercial, political and security interactions?

Second, and related, what are the specific implications for U.S. trade and economic interests in the Asia-Pacific region, and the broader economic objectives of the United States?

Let me be more specific by addressing some of the questions you posed in your introduction and your letter of invitation to participate in this hearing.

### **Emergence of a Japan-Led Asian Trade Bloc?**

You have asked whether Japan is positioned to lead an emerging trade bloc in Asia and the Pacific. Up to now, the efforts of Japanese corporations and concerned government ministries appear to have been aimed at strengthening the position of Japanese companies in a growing regional market and maintaining their viability in the global market, of which the U.S. market is still the single largest prize, not in creating an exclusive economic zone. For the

moment, therefore, I think it is fair to say that this is only a potential problem, and one that would likely materialize as part of a generalized move towards regional economic blocs, rather than one initiated by Japan.

### ***Reaction to U.S. and European Trade Policies***

Japanese leaders and opinion-makers, as well as their counterparts in other Asian countries, are seriously concerned about adverse trends in the global economy, including what they see as protectionist and regionalist tendencies in North America and especially the European Community. The Liberal Democratic Party (LDP) government itself is under domestic political pressures that make it hard to promote accommodations with Japan's major trading partners, even when these are may be in Japan's enlightened self-interest.

One liability of a Japan-dominated trade zone would be the necessity for Japan to greatly step up its imports from its neighbors in order to maintain regional growth in the face of presumably closing non-Asian markets. In recent years Japan's purchases of Asian exports has been expanding rapidly, and totalled \$74 billion in 1991, compared to \$102.9 billion for the United States. However, the *rate* of growth of Japanese imports of manufactured goods from the region has actually been declining since 1988, as Japanese companies have adjusted to the higher yen through increased domestic investment and cost reduction efforts. Moreover, Japan's exports to the region are growing much more rapidly than the growth of imports and it continues to amass large trade surpluses. These are sustainable mainly because the same countries' overall international accounts are in reasonable balance, often based on their trade surplus with the United States.

### *Playing the Regionalism Card?*

Increasingly, Japanese policymakers have started to play the regionalism card, perhaps mainly as a means of maximizing Japan's bargaining position. By tacitly or actively encouraging the formation of an Asian consensus, Japan's policymakers may see the opportunity to gain some leverage on the United States and reduce Japan's own vulnerabilities to U.S. pressures. Such objectives appear to lie behind Japan's greater activism and bid for leadership in Asia, and raise questions about its equivocal reaction to Malaysian Prime Minister Mahathir's proposal for an East Asian Economic Group (EAEG) that would exclude the United States, Canada, Australia and New Zealand. While Japan joined the United States in publicly opposing the plan, some analysts suspect Japan of having privately encouraged the idea.

The leverage that Japan might derive from its regional leadership has both positive and negative aspects. Its can be used to promote Asian acceptance of greater market openness and its can be wielded in a benign fashion to warn the United States against promoting North American regionalism that would discriminate against Asian competitors, for instance, through local content provisions. It can also be used more aggressively to encourage opposition to U.S. bilateral trade policies, especially market-opening and anti-dumping measures that generate broadly based antipathy in Asia.

## **Dominant Power Role For Japan?**

Although a clear-eyed analysis tells Japan that a regional trade bloc would be second best to continued development of expanding global markets, some analysts see a growing and worrisome Japanese psychological attachment to the idea that Asia is the place where Japan should work out its destiny. While those who now dominate policymaking generally profess continued support for an open global trading system, within relevant ministries and within business, academic and journalistic circles one can discern a rising popular fixation on the Asian option idea,<sup>4</sup> commonly referred to in the Japanese press as "re-Asianization." This development appears largely to be a reaction to the collapse of the Cold War, the bursting of the economic bubble, growing consternation with U.S. trade pressure and resentment at what are widely viewed as excessive demands by the United States for security burden sharing. The more extreme proponents of an Asia-first outlook see globalism as working against Japan's interests, though their precise aspirations are not very clear.

The worrisome aspect of this tendency is its uncomfortable parallel to the past, especially in light of the relative ignorance of the Japanese public regarding their own history and role in Asia. If Japan pushes too hard to play the role of the dominant power, the potential for an Asian backlash remains strong. Even now, the other militarily and industrially powerful Asian countries such as China and South Korea are in no mood to accept even a political-economic replay of the 1930s. Moreover, while the leaders of Asia-Pacific

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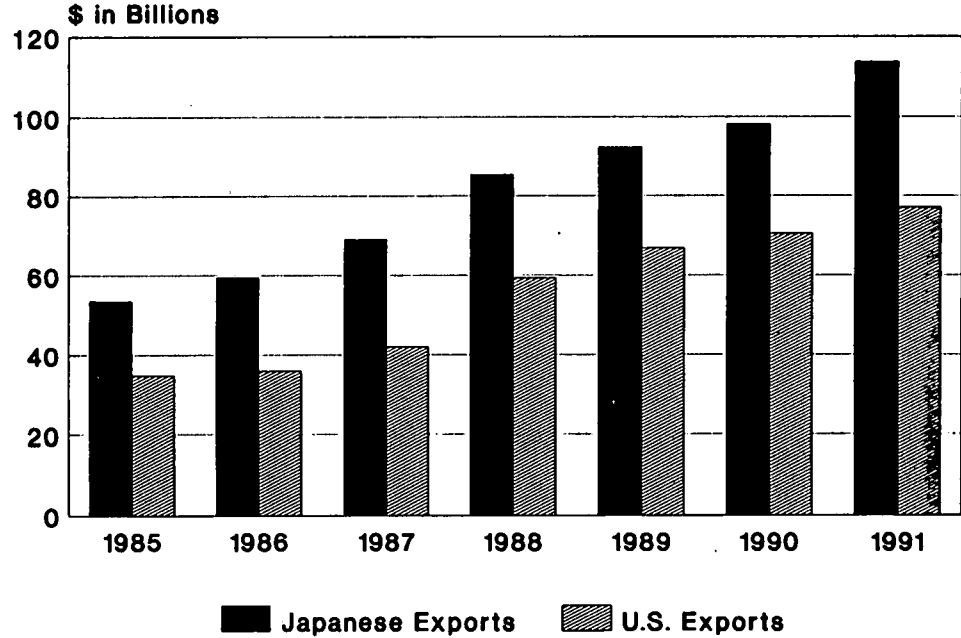
<sup>4</sup>Bruce Stokes, "Tilting Toward Asia," *National Journal*, Jul. 7, 1992: 1624-1626.

countries may be inclined to bend in the Japanese wind, volatile populations may be less pragmatically inclined. In the face of an excessively intrusive Japanese economic presence the forces of ethnic and political nationalism could well be strong enough to overwhelm calculations of national economic self-interest.

### **Will Japan Displace U.S. Business in Asia?**

For many U.S. analysts the question of the moment is whether Japan's increasing role as the core economy of Asia may inhibit the prospects for U.S. business interests in the region. This is a difficult question to answer, but preliminary data -- much of it admittedly anecdotal -- suggests that in general this is not the case. First, the most obvious fact is that U.S. exports to Asian economies are growing rapidly, much faster, in fact, than the growth of U.S. imports. During the period 1987-1991, U.S. exports to the Newly Industrialized Economies (NIEs) -- Hong Kong, Singapore, South Korea and Taiwan -- grew by 93.9 percent. U.S. exports to the ASEAN developing countries (i.e., excluding Singapore) grew by 103.6 percent during the same period (Appendix B). These figures hardly suggest that U.S. companies are being squeezed out. Rather, they suggest that rising growth and personal incomes in the region, which are partly the result of growing Japanese aid and investment, have created expanding markets for all players. The United States is gaining in an expanding sum situation, but of course, as can be seen in Chart 3, Japan is gaining faster.

### Chart 3. Japanese and U.S. Exports to the Asia-Pacific Region, 1984-1991



Source of Data: OECD Trade Statistics



Various anecdotal evidence also suggests that in general, the main limitations on the prospects for U.S. business in the region are inadequate investment and effort on our part. Certainly all of the Asian countries are eager to attract U.S. investment and business as a counterbalance to Japan's role. Regional representatives of U.S. multinationals often express frustration that the home office fails to appreciate the business potential of the region. In interviews and press reports officials of U.S. companies repeatedly express the view that Asia represents a lucrative growth market for their industries. The Japanese are seen as formidable competitors, but also as potential business partners in some cases.

There are, however, three aspects of Japanese economic involvement in Asia that are more clearly matters of legitimate U.S. policy concern. First, Japanese companies and local joint venture partners have a decided advantage in competing for infrastructure business funded by Japanese official development assistance (ODA) and soft loans from the Japanese Export-Import Bank. In brief, although Japanese aid is mostly untied, technically, the way the system works practically guarantees that Japanese companies will get the lion's share of the contracts.

One could argue that the business wouldn't exist in the first place, if Japan did not provide the financing, and from this perspective, Japan's competitors have not lost anything by not getting a share of Japanese funded projects. From another perspective, however, the combination of the strategic focus of Japanese aid programs on infrastructure development, and the bias in favor of Japanese bidders, gives Japanese industries the opportunity to become dominant players in important high-technology and capital goods sectors such as

telecommunications, thermal and hydroelectric power and transportation. In many cases, the availability of soft-loan financing is the *sine qua non* of getting business in these sectors. This situation is typical of the aid-givers's advantage, and European countries are just as adept at exploiting it as the Japanese are.

U.S. companies are, however, put at a further disadvantage by the functioning of the Japanese *Keiretsu* system of interlocking company ownership and business relationships. Theoretically, many projects can be carried out entirely within the umbrella of a major trading company or *keiretsu*, including engineering and design work, construction, procurement of equipment and shipping. Even in non-aid economic activity it is widely assumed that Japanese companies will deal with foreign companies only when there is a compelling need to obtain some special technology, equipment or service not available within the *keiretsu* family. None of these situations, however, are a bar to U.S. companies making their own investments, or, when financing is available, getting contracts for U.S. aided projects.

Finally, the human links being forged by Japan's long-standing aid and investment role also suggest waning U.S. influence and problems for U.S. businesses. The more local businesses become involved as subcontractors to Japanese companies, and the more local industries and government's adopt Japanese engineering specifications, the harder it may become for U.S. firms to obtain business. As but one example, while the regional automobile market is growing fast, major U.S. companies for the most part are not significant players and their local representatives already see the business as dominated by Japanese companies and local joint venture partners. In Indonesia, for instance, the most populous country of the region, Japanese auto companies do business

with a host of local joint venture companies supplying glass, tires, steel and electrical components. U.S. companies will face an uphill battle to gain shares in this rapidly growing market. The same could be said for most other regional states.

## **PORTENTS OF RECENT TRENDS: THREE SCENARIOS FOR THE FUTURE**

Despite the rapid growth of Japan's economic role and influence, the shape of future economic, political and security relationships in Asia and the western Pacific remains undetermined. Conflicting and incomplete data appear to support as many as three different scenarios for Japan's role and for the structure of regional economic, political and military ties during the next decade. These scenarios parallel, to a certain extent, other efforts at scenario building, but differ in their degree of emphasis on economics as the driving factor and their focus on Asia and the western side of the Pacific, rather than the Pacific rim.<sup>6</sup>

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<sup>6</sup>The following scenarios are adapted from Japan's Expanding Role and Influence in the Asia-Pacific Region: Implications for U.S. Interests and Policy. CRS Report for Congress, September 7, 1990 [by Richard P. Cronin]; and Richard P. Cronin, Japan, the United States, and Prospects for the Asia-Pacific Century: Three Scenarios for the Future. Institute of Southeast Asian Studies, Singapore, and St. Martin's Press, New York, 1992.

**Scenario 1--"Constructive Globalization of Japan."**

The first scenario corresponds to a best case outcome for evolving U.S.-Japan relations, under which a cooperative Japan would do all the "right things" to maintain a harmonious and economically expanding Asia-Pacific region. Japan would support U.S. objectives for a new GATT agreement, adopt growth and market opening oriented domestic economic policies, provide economic support to efforts to stabilize the former U.S.S.R., and undertake additional burden sharing measures to shore up the U.S.-Japan security alliance and the U.S.-led regional security system.

This is the traditional global partnership model. As an aid giver, Japan's programs would emphasize greater participation by non-Japanese firms and greater emphasis on human resources development and relatively less on large infrastructure projects. Its investment activities in Asia and elsewhere would involve more participation by local subcontractors, transfer more technology, and be more oriented towards the Japanese market. Under this scenario Japan would only marginally increase its military forces in consonance with greater "burden-sharing," while the U.S. and Japan would also continue to cooperate closely to meet mutually perceived security threats to the region. The United States, for its part, would improve its macroeconomic position and take other steps to become more competitive, and thereby alleviating pressures to restrict its domestic markets or sharply cut back its political and security role in the region.

This scenario would appear to be most likely in an expanding global economy, which would make easier the pursuit of enlightened self-interest on

the part of Japan, the United States and the NIEs. The viability of this scenario would seem to be dependent on the world economy being favorable (beyond near term cyclical trends noted above.) These include trends such as the still growing integration of global markets, demographic trends in the United States that in the future may favor more savings and investment, and projected reverse trends in Japan. Scenario 1 would also appear more likely in an international environment in which Japan could continue to see its contribution to stability primarily in economic terms, but also an environment in which Japan saw its security relationship with the United States and the U.S. regional military role as still important to its interests, as at present.

#### **Scenario 2--"Heightened Economic Rivalry in Asia."**

This scenario represents a kind of implosion of the previously expanding Asia-Pacific economy and, probably, a sharp deterioration of political and security relationships as well. Under this scenario a mercantilistic or "self-centered" Japan would use its aid and investment to increase the competitive position of Japanese companies in world markets vis-a-vis the United States and the four Asian Newly Industrialized Economies (NIEs) of South Korea, Taiwan, Hong Kong and Singapore, while keeping its own markets relatively closed.

Scenario 2 would likely come about as a consequence of the failure of Asian countries to continue to liberalize access to their own markets, and the adoption of discriminatory policies in North America and Europe. A number of trends now point towards some variant of scenario 2, including the failure of Japan to grant adequate market access to Asian manufactures exports and rising

protectionism in the developed countries and the NIEs, as well as cyclical factors such as the current Japanese recession. Essentially, this scenario would have too many goods chasing too few buyers.

This scenario would create unmanageable imbalances in the current Asia-Pacific trading system -- i.e. massive Japanese surpluses and stagnation in the NIEs, with widening ripples affecting political and security relations as well. Given significant existing sources of tension and fear of Japanese military domination on the part of other Asian countries, the intensification of trade disputes and rising protectionism probably would lead to a breakdown of regional political cooperation and the decay of the U.S.-Japan security alliance.

Scenario 2 could have ominous implications for all of the Asia-Pacific countries, as well as the United States, since it would call into question the continuity of the last two decades of steady and rapid economic growth. It would also bode ill for long term U.S. security interests in Asia and the western Pacific due to the potential loss of forward basing access in Japan and the emergence of a new and probably unstable power balance.

### **Scenario 3--"Japan-Dominated Asia-Pacific Region."**

This scenario is based upon existing trends towards Japanese economic predominance as well as more efforts seeking regional leadership. Under this scenario, the "real" Japan would pursue a less blatantly neo-mercantilistic policy than under scenario 2 in order to thicken the ties between the Japanese "core" and the periphery (its offshore production zones and sources of raw materials in Asia and the Pacific), while expanding its role as a political leader, often in

opposition to U.S. policies. At one end of the scale, it can be viewed in positive terms as an extension of an ongoing shift in the center of gravity of power in the Asia-Pacific region in the direction of Japan, in which the effects for most countries besides the United States would be not unlike scenario 1. At the other end of the scale, it could lead to a new "Co-Prosperity Sphere" that might effectively "freeze out" the United States from the region.

Under optimal circumstances the scenario might remain an expanding sum situation for all of the countries except the United States, but in the end I think it likely that inherent sources of instability would tend to force it back to Scenario 2. These include differences between Japan and its neighbors over the appropriate economic "division of labor," Japan's unwillingness to transfer technology or give adequate market access to the NIEs, and its inability to manage likely sources of military instability in the absence of close security cooperation with the United States.

This scenario is perhaps less credible now than two years ago, when the trend lines in Japanese offshore investment, aid and import growth from the region appeared to be headed ever upward. The bursting of the "bubble" in Japan, the subsequent fall in foreign investment and the onset of a recession appear to have at least postponed the day when this scenario might become a reality.

## **Assessment**

These scenarios should be seen as conceptual models of three alternative futures, not necessarily as realistic ones. In reality, I would judge that the future is likely to include some elements of all of them, although one tendency may predominate. Developments during the past several years do not suggest a sharp move in any one direction. In general, however, Japan appears gradually to be tending away from global partnership and more towards the assertion of its regional leadership. In a vacuum, this would tend towards scenario 3, a Japan-dominated region. In reality, however, Japan does not operate in a vacuum. The United States and other Pacific rim countries are also pursuing their own policy objectives, so that any serious breakdown of ties between Washington and Tokyo is likely to lead not to Japanese dominance, but in a more conflict prone Asia-Pacific region, as in scenario 2.

## **U.S. POLICY ISSUES**

The above discussion raises a number of important policy issues, most of which are matters of great controversy and debate. Rather than wade into a discussion of alternative U.S. trade, economic competitiveness and foreign policies, I will just indicate the areas where policy attention would seem to be required.



## **Overall Approach to Asia-Pacific Issues**

U.S. interests in the Asia-Pacific region are multifaceted, and must be reconciled both with domestic interests and broader U.S. global policy concerns. Whether the United States has had a sufficiently integrated policy towards Japan and the Asia-Pacific region is a matter of active and often partisan debate. Americans have had a hard time achieving consensus about how to deal with pressing trade, economic and foreign policy issues, and this is nowhere more apparent than in regard to U.S. policies toward Japan and other Asian trading partners and allies.

A plausible case can be constructed that given a weak economy and a lack of consensus about addressing fundamental problems, U.S. policy towards Japan and the Asia-Pacific region has for the most part represented a reasonable compromise among competing Asian regional, global and domestic economic interests. However, in the interest of a constructive evaluation of U.S. regional policy, I would note two fairly strong criticisms:

First, the apparatus of the Executive branch for dealing with Asia-Pacific issues still bears the earmarks of the national security state, not a country with a focus on promoting its economic or to use a new catch-phrase, "geoeconomic" interests. An argument can be made that the United States government has not had any institutional mechanism for addressing these multifaceted issues. Some have suggested, for instance, that foreign economic policy should be given equal attention with traditional security concerns in a revised National Security Council. Others, however, would likely object to the notion of applying Cold

War principles to trade and economic policy, and suggest alternative policy coordinating arrangements.

Second, and related, is a matter of mental outlook on the part of policymakers. American policymakers and analysts have sometimes seemed to have a "right brain-left brain" problem in dealing with these multifaceted issues. The "right brain" people tend to focus on security issues and power considerations and tend to have normative, Cold War era related views about the roles that should be played by the United States, Japan and other Asian allies. The "left brain" people tend to focus on economic relationships and the supremacy of economic issues, and assume that the political and security relationships can take care of themselves. The problem is, all of these areas are bound up in one Asia-Pacific system, and can be dealt with in isolation only at some risk. Many would agree that both the Administration and Congress have tended to deal with the broader issues relating to Japan and the Asia-Pacific region in a parochial or piecemeal fashion, with insufficient regard to the interrelationships of important issues.

### **Specific Policy Issues**

The relative shift of power and influence towards Japan in recent years has raised a number of specific policy issues. I will just note them briefly, and indicate the main points around which they revolve:

### ***Support of U.S. Business Interests from Government Agencies***

Most analysis and reporting contrasts official U.S. support of overseas business unfavorably with that enjoyed by Japanese companies. Basic questions include whether the U.S. government should be organized differently to support U.S. businesses overseas, whether current U.S. development programs are effective or benefit the U.S. economy, whether the United States should provide more money for infrastructure development via the capital projects budget of the Agency for International Development, and whether the United States should provide more soft credits via the Export-Import Bank or other lending agencies.

### ***Policy Towards the Organization for Asia-Pacific Economic Cooperation (APEC)***

The United States has actively participated in the 15-member APEC organization since the first ministerial (cabinet) level meeting in Canberra, Australia, in November 1989. Secretary of State James E. Baker III attended the most recent, November 1991, meeting in Seoul, South Korea. Individual member countries have different aspirations for APEC. These range from an informal discussion group to a body that would work actively to promote open trade and investment policies and coordinate economic policies.

The prime concern of most Asian supporters of APEC is making sure that both the United States and Japan are involved. Despite its official support of the body, a number of countries tend to see current U.S. interest as qualified, and secondary to the U.S. relationship with the Group of Seven (G-7) industrialized countries and the desire of the Bush Administration to achieve a North American Trade Agreement.

One determinant of U.S. influence in the Asia-Pacific region and of its relationship with Japan, the NIEs and the ASEAN countries may be the extent to which the United States seeks to promote the development of APEC. Even more important, however, will be the particular agenda proposals that it advances or supports.

### *U.S. Regional Security Role*

Support for the U.S. military presence in Asia was never unanimous, but Japan and a number of other Asian countries are concerned about the implications of a U.S. military withdrawal from the region. While most see a substantial diminishment of the U.S. presence as a logical outcome of the end of the Cold War, many of the regional states, including Japan, are nervous about the prospects for continued regional stability. In addition to potential flash points such as the Korean peninsula or disputed territories such as the Spratley Islands, Asian analysts see considerable impetus towards a regional arms race and the reemergence of old rivalries, ethnic animosities and unresolved territorial disputes. In addition to China, which already has a nuclear arsenal, and several other Asian countries may be near to having nuclear weapons. Others, including Japan, have the wherewithal to become nuclear powers in short order.

As the United States downsizes its military establishment major questions arise about what missions the remaining forces should prepare for, and where they should be deployed. Whether the deployment of U.S. forces in the Asia-Pacific region should be considered an economic burden or a positive source of support for U.S. economic interests remains an arguable point, and one on

which more analysis could usefully be brought to bear. In the past, the dependence of a number of Asian countries on U.S. security guarantees was a considerable source of U.S. leverage across a range of bilateral issues, though perhaps not one that was always utilized optimally. Whether U.S. alliance relationships will remain a source of influence depends on how secure or insecure Asia-Pacific countries perceive themselves, and the degree to which the United States chooses to remain a regional military power and a regional leader.

Additionally, to the extent that the United States relies on Japanese non-military aid to address Asian security issues it risks undermining its own economic interests and giving Japan the right to seek its own solutions to these problems on lines that the United States might or might not be comfortable with. A best case outcome could see a more cooperative and balanced partnership with Japan in addressing Asian security issues, but such an outcome would require enough sharing of decisionmaking authority to overcome Japan's growing aversion to "checkbook" diplomacy. A worst case outcome would see substantially diminished U.S. influence and the thrusting of Japan into a role that it still seems ill-equipped to play.

APPENDIX A  
 JAPANESE TRADE WITH ASIA-PACIFIC COUNTRIES, 1987-1991  
 (U.S. Dollars in Millions)

	Imports						Exports					
	1987	1988	1989	1990	1991	% Change 1987-91	1987	1988	1989	1990	1991	% Change 1987-91
<b>NIES</b>	<b>19,027</b>	<b>25,014</b>	<b>27,137</b>	<b>25,944</b>	<b>27,808</b>	<b>43.5</b>	<b>89,804</b>	<b>49,820</b>	<b>52,756</b>	<b>56,668</b>	<b>66,675</b>	<b>68.0</b>
Hong Kong	1,577	2,111	2,215	2,172	2,062	30.8	8,847	11,708	11,528	13,080	16,321	82.4
Singapore	2,081	2,338	2,953	3,576	3,413	64.0	6,064	8,912	9,240	10,716	12,221	101.5
South Korea	8,172	11,827	12,997	11,712	12,359	51.2	13,344	15,443	16,665	17,460	20,076	50.5
Taiwan	7,198	8,738	8,989	8,484	9,475	31.6	11,449	14,357	15,422	15,432	18,257	59.5
<b>ASEAN (4)</b>	<b>16,505</b>	<b>16,997</b>	<b>21,792</b>	<b>24,408</b>	<b>26,822</b>	<b>62.5</b>	<b>9,614</b>	<b>13,020</b>	<b>16,646</b>	<b>22,188</b>	<b>25,355</b>	<b>163.7</b>
Indonesia	8,500	9,493	11,016	12,708	12,775	50.3	3,016	3,055	3,301	5,040	5,615	86.2
Malaysia	4,814	4,709	5,124	5,400	6,452	34.0	2,188	3,061	4,124	5,508	7,642	249.3
Philippines	1,375	2,041	2,083	2,148	2,345	70.5	1,429	1,740	2,381	2,508	2,659	86.1
Thailand	1,816	2,754	3,589	4,152	5,250	189.2	2,982	5,164	6,840	9,132	9,459	216.5
<b>Non-Market</b>	<b>7,884</b>	<b>10,379</b>	<b>11,780</b>	<b>12,924</b>	<b>15,160</b>	<b>92.8</b>	<b>8,734</b>	<b>9,914</b>	<b>8,888</b>	<b>6,528</b>	<b>9,038</b>	<b>3.4</b>
China (PRC)	7,478	9,680	11,140	12,024	14,222	90.2	8,336	9,482	8,622	6,132	8,594	3.1
New Zealand	240	323	295	300	275	14.5	216	239	197	180	224	3.8
Vietnam	145	196	346	600	662	356.2	181	193	189	216	217	19.9
<b>South Asia</b>	<b>2,042</b>	<b>2,359</b>	<b>2,563</b>	<b>2,616</b>	<b>2,832</b>	<b>38.7</b>	<b>2,921</b>	<b>3,209</b>	<b>3,047</b>	<b>2,712</b>	<b>2,665</b>	<b>-1.2</b>
India	1,646	1,806	1,974	2,076	2,184	41.3	1,978	2,083	2,018	1,704	1,524	-22.9
Pakistan	497	553	589	540	648	30.4	944	1,126	1,028	1,008	1,361	44.1
<b>Other Asia</b>	<b>1,388</b>	<b>1,471</b>	<b>1,458</b>	<b>1,632</b>	<b>1,838</b>	<b>32.4</b>	<b>1,111</b>	<b>1,069</b>	<b>1,087</b>	<b>1,164</b>	<b>1,151</b>	<b>3.6</b>
<b>Oceania</b>	<b>9,718</b>	<b>12,780</b>	<b>14,167</b>	<b>14,748</b>	<b>15,540</b>	<b>59.9</b>	<b>6,919</b>	<b>8,388</b>	<b>9,974</b>	<b>8,964</b>	<b>8,362</b>	<b>20.8</b>
Australia	7,974	10,285	11,566	12,324	12,954	62.5	5,196	6,894	7,806	6,900	6,497	25.0
New Zealand	1,180	1,645	1,866	1,728	1,822	54.4	1,188	1,040	1,348	1,212	1,082	-4.9
Pacific Islands	564	850	943	696	764	35.5	586	643	821	852	782	33.6
<b>Total Asia-Pacific</b>	<b>56,544</b>	<b>71,000</b>	<b>78,898</b>	<b>82,272</b>	<b>89,501</b>	<b>58.3</b>	<b>69,103</b>	<b>85,400</b>	<b>92,399</b>	<b>96,244</b>	<b>113,663</b>	<b>64.5</b>
<b>Reference Comparison</b>												
U.S.	31,957	42,295	48,520	52,728	53,560	67.6	84,992	90,264	93,718	90,868	92,105	8.4
Canada	6,109	8,300	8,653	8,378	7,685	25.8	5,662	6,426	6,806	6,732	59,094	23.1
OECD-Europe	22,860	30,612	35,198	42,708	39,272	71.8	46,116	56,124	56,602	63,396	170,979	49.7

NOTE: Numbers may not add due to rounding. Source of Data: OECD Monthly Statistics on Trade.

**APPENDIX B**  
**U.S. TRADE WITH ASIA-PACIFIC COUNTRIES, 1987-1991**  
(U.S. Dollars in Millions)

	Imports						Exports					
	1987	1988	1989	1990	1991	% Change 1987-91	1987	1988	1989	1990	1991	% Change 1987-91
<b>NIES</b>	<b>57,664</b>	<b>63,333</b>	<b>62,756</b>	<b>60,493</b>	<b>59,324</b>	<b>2.8</b>	<b>23,546</b>	<b>24,890</b>	<b>26,456</b>	<b>40,740</b>	<b>45,659</b>	<b>93.9</b>
Hong Kong	9,854	10,243	9,739	9,492	9,287	-5.8	3,883	5,690	6,304	6,640	8,141	104.4
Singapore	6,200	7,996	8,950	9,840	9,977	60.9	4,052	5,770	7,352	8,016	8,608	117.4
South Korea	16,987	20,189	19,742	18,492	17,024	21.9	8,099	11,290	13,478	14,400	15,518	91.5
Taiwan	24,622	24,804	24,325	22,668	23,036	-6.4	7,412	12,131	11,323	11,484	13,192	77.9
<b>ASEAN (4)</b>	<b>10,796</b>	<b>13,900</b>	<b>15,728</b>	<b>17,268</b>	<b>18,934</b>	<b>75.4</b>	<b>5,907</b>	<b>7,040</b>	<b>8,630</b>	<b>10,778</b>	<b>11,821</b>	<b>103.6</b>
Indonesia	3,394	3,188	3,542	3,324	3,239	-4.6	767	1,056	1,256	1,896	1,892	146.8
Malaysia	2,921	3,712	4,745	5,268	6,102	108.9	1,896	2,140	2,875	3,420	3,902	105.8
Philippines	2,263	2,682	3,064	3,384	3,472	53.4	1,600	1,880	2,207	2,472	2,269	41.9
Thailand	2,220	3,218	4,378	5,292	6,121	175.7	1,644	1,964	2,292	2,988	3,757	143.3
<b>Non-Market</b>	<b>6,294</b>	<b>8,513</b>	<b>11,988</b>	<b>15,328</b>	<b>18,976</b>	<b>201.5</b>	<b>3,521</b>	<b>5,054</b>	<b>5,818</b>	<b>4,624</b>	<b>6,390</b>	<b>78.7</b>
China (PRC)	6,294	8,513	11,988	15,228	18,986	201.5	3,497	5,039	5,807	4,812	6,287	79.8
North Korea	-	-	-	-	-	-	-	-	-	-	-	-
Vietnam	-	-	-	-	-	-	24	16	11	.012	.004	-85.0
<b>South Asia</b>	<b>2,933</b>	<b>3,413</b>	<b>3,839</b>	<b>3,804</b>	<b>3,859</b>	<b>31.6</b>	<b>2,197</b>	<b>2,592</b>	<b>2,599</b>	<b>3,624</b>	<b>2,953</b>	<b>34.4</b>
India	2,528	2,952	3,314	3,192	3,197	26.4	1,464	2,498	2,464	2,484	2,003	36.8
Pakistan	404	461	523	612	662	63.8	733	1,093	1,135	1,140	950	29.8
<b>Other Asia</b>	<b>1,379</b>	<b>1,458</b>	<b>1,691</b>	<b>2,016</b>	<b>1,856</b>	<b>34.6</b>	<b>445</b>	<b>548</b>	<b>621</b>	<b>516</b>	<b>518</b>	<b>16.4</b>
<b>Oceania</b>	<b>4,185</b>	<b>4,823</b>	<b>5,273</b>	<b>5,773</b>	<b>5,259</b>	<b>29.8</b>	<b>4,526</b>	<b>5,243</b>	<b>5,846</b>	<b>6,973</b>	<b>6,811</b>	<b>50.5</b>
Australia	3,007	3,532	3,900	4,440	4,018	33.6	5,495	6,983	8,346	8,544	8,416	53.2
New Zealand	1,051	1,183	1,231	1,224	1,216	15.6	818	943	1,118	1,140	1,014	23.9
Pacific Islands	77	108	142	108	125	62.5	212	317	383	288	379	78.5
<b>Total Asia-Pacific</b>	<b>83,202</b>	<b>94,238</b>	<b>101,274</b>	<b>104,580</b>	<b>108,307</b>	<b>30.2</b>	<b>42,042</b>	<b>59,358</b>	<b>66,974</b>	<b>70,453</b>	<b>77,053</b>	<b>83.8</b>
<b>Reference Comparison</b>												
Japan	84,575	89,802	93,586	89,652	91,583	8.3	28,249	37,732	44,584	48,588	48,146	70.4
Canada	71,084	80,921	88,210	91,368	91,141	28.2	59,814	69,233	78,286	82,968	85,146	42.4
OECD-Europe	94,636	99,520	100,817	108,132	101,810	7.6	69,090	87,187	99,722	112,224	118,146	71.0

NOTE: Numbers may not add due to rounding. Source of Data: OECD Monthly Statistics on Trade.

REPRESENTATIVE HAMILTON. Thank you.  
Mr. Driscoll, please proceed.

**STATEMENT OF ROBERT DRISCOLL, PRESIDENT,  
U.S.-ASEAN COUNCIL FOR BUSINESS AND TECHNOLOGY, INC.**

MR. DRISCOLL. Thank you, Mr. Chairman, for the opportunity to come before you and speak on this important topic.

I would like to confine my remarks to the final question that you raised in your letter, which deals specifically with the adequacy of U.S. Government policy, and what might be done to improve our position and the prospects for American firms in the region.

I agree with much of what Mr. Cronin has said about the preeminence of Japan in the Asia-Pacific region. Indeed, there are, and continue to be, persistent views that Japan will dominate a regional trade bloc among the Asia-Pacific countries.

However, I would like to start by saying that we cannot underestimate the important stake that the United States and U.S. business have in the Asia-Pacific region, particularly in the ASEAN countries.

Only exports to Mexico have grown at a faster pace than exports to the ASEAN countries. American firms export more to Singapore than to either Italy or Spain, more to Malaysia than the former Soviet Union, and more to Indonesia than to all of Eastern Europe.

U.S. investment is also sizeable. By official statistics, which clearly underestimate the stake that American firms have in this region, our investment in ASEAN stands at \$12.7 billion, and the rest of Asia at \$53.3 billion. Yet, recent surveys of American firms in the ASEAN countries have placed U.S. investment there in excess of \$30 billion, or slightly higher than Japanese investment in this region.

Unfortunately, that investment is too narrowly based, concentrated in oil and gas and electronics. Therefore, we need to expand our commercial interaction with the entire region. To do that, I believe the United States needs to have a clear, consistent economic policy toward the entire Asia-Pacific region, and in particular toward the ASEAN countries.

Such a policy needs to put at the forefront, and not make secondary to other worthy concerns, our commercial and economic interests. It must involve a broad package that creates a policy framework that is clearly stated, and is understood not only by our friends but by all branches of the U.S. Government.

It must also consist of promotional activity to increase the awareness of the opportunities open to U.S. companies throughout the region. Underlying this new economic strategy for Asia and the Pacific is the need to strengthen the personal ties between America's leaders and the leaders of our partners in the Pacific. Doing so will put our government in a better position to support U.S. investment and trade in the region. It will respond to the way business is done and the importance that the countries of the region place on personal relationships rather than on institutional linkages.

President Bush's visit to Asia in January was an important step in merging our political security and economic interests. The decision to take business



leaders from key business associations with him has been much maligned in the press, yet it did demonstrate a commitment by the U.S. Government to our commercial interests, and it sent a clear message that American businesses understand that our economic strength is inevitably linked to the Asia-Pacific region. That effort should be augmented.

Senior government leaders should include an accompanying business delegation on their travels to Asia, something too infrequently done. Governors of our various states should include business executives from their states on trips to the region. Indeed, the governors of Oklahoma and Ohio will be including business delegations on their travels, and Senator Max Baucus from Montana will include several Montana companies on a trip that he is planning to the region in August of this year. These delegations will not only help increase exports, but also reinforce the partnership between business and government that is essential to our competitiveness.

Because the U.S.-ASEAN council deals primarily with the countries that comprise the Association of Southeast Asian Nations, I will focus my attention on these countries. These nations form a core of opportunity for American businesses in the Asia-Pacific region, a competitive base from which to expand into the entire region, markets open and receptive to American goods and service, and one of the most dynamic regions, from an economic perspective, in the world.

Let me turn to some of my specific recommendations. These suggestions come from a series of meetings which we have held with our members to try to look toward a development of a cohesive strategy toward expanding U.S. trade and investment in the Asia-Pacific region.

From my perspective, the most important element of a policy framework is to put trade and investment interests at the forefront. In the post-Cold War environment, and particularly in Asia, these issues are paramount in the minds of our trading partners.

Our partners expect that these concerns will also have the same weight for the United States, and are frequently puzzled when we fail to act in, what they view, a rational matter. Putting trade and investment at the forefront doesn't mean we forfeit our ability to pursue other legitimate interests. It simply means that we will seek to achieve those interests through means that will not adversely affect our competitiveness, or risk the continued expansion of our commercial interests in the region.

At the core of a forward-looking policy toward the ASEAN countries, in particular, should be negotiation of a free-trade agreement. An FTA will help to assure that our trade with the ASEAN countries continues to grow at double-digit rates. It will also enhance our competitiveness in this region, while it could also help counteract the rising importance of Japan.

Supplementing this free-trade agreement, we should be looking to the negotiation of bilateral trade and investment framework agreements, aimed at increasing trade and lowering barriers. These agreements can establish a continuity for consultations on trade and investment issues with our ASEAN partners, can set a stage for dispute settlement, and set the stage for continued growth of our interests in the region.

These can be a means for dealing with some of the key issues that the Congress and the Administration have set as priorities of our trade policy,

including the expansion of intellectual property rights protection, reduction of tariff and nontariff barriers, and improved market access.

Other elements of direct interest to the U.S. business community are bilateral double taxation treaties. Top priority should be placed on completing negotiations on these treaties as quickly as possible. Supplementing these, we should look at bilateral investment and intellectual property agreements to further enhance the position of American business in the region.

I suggest that these be done as a package. Last year, President Bush announced the Enterprise for the Americas program and the negotiation of the North America Free Trade Agreement. That was presented as a package to expand U.S. presence and involvement in the countries of the Americas.

Certainly, it has caused concern among our Asian partners, who perceive that the United States is retreating into a Western Hemisphere strategy and is no longer seriously interested in being engaged in the economies of the Asia-Pacific region. We need to decisively counteract that by announcing a similar cohesive package toward the Asia-Pacific region, and in particular toward the ASEAN countries.

Even with a package of policies such as this, we in the United States need to do a better job of making sure that our American companies can be competitive and can gain presence in the Asia-Pacific and ASEAN markets.

There are major opportunities for the expansion of our trade and investment links. Our exports are dominated by too few American companies, and our investments are concentrated in too few sectors. More U.S. companies need to participate in the growing opportunities in the region.

High-level attention by leaders of the U.S. Government will also help heighten the awareness of this region in the headquarters of American corporations.

We need greater coordination and support of American business interests by our government, including improved financing, as well as additional efforts by government programs to support American business interests in the region.

But promotion of U.S. interests and expanding our trade and investment in the Asian-Pacific region is not simply a task of the Federal Government. It is a joint task of industry and the government.

Earlier this year, the U.S.-ASEAN Council organized a tour by the U.S. ambassadors to five of the ASEAN countries to inform U.S. business of the opportunities for trade and investment in the region. The response to that tour was unprecedented. We had 2,500 companies participate in seminars and in other programs that were organized to hear from our ambassadors about the opportunities in the region and about what the American embassies can do to assist U.S. business. I would like to highlight four conclusions that came from that tour.

First and foremost, there is clear interest among small- and medium-sized companies in the opportunities for businesses throughout the entire Asian-Pacific region. Yet, there is a fundamental lack of information about what those opportunities are and how to take advantage of them.

A second conclusion, particularly for the medium-sized companies, is the need for assistance in finding those markets opportunities, identifying

potential partners, and learning the ropes for doing business in the region. Greater coordination among government agencies and concentration on meeting the specific needs of businesses were called for at virtually every stop. The commercial role of the embassy and the coordination of the Departments of Commerce and State were cheered by U.S. business.

A third issue is the need for greater access to trade finance. Mr. Cronin has talked about the question of whether or not we are disadvantaged by mixed credit and predatory financing by our competitors. I think there is also a continuing concern of access, particularly by small- and medium-sized companies, to trade finance for smaller transactions. American banks are simply not in this business to the degree that they should be; and trade finance is simply not available under terms and conditions that are familiar to these companies.

And I want to reiterate the fourth conclusion, which is the need for greater coordination among U.S. agencies. I think the recently formed Trade and Promotion Coordinating Committee is a step toward bringing all of the U.S. Government agencies that are involved in trade promotion into greater coordination.

Japan certainly has aggressively exploited its comparative advantages in the Asian-Pacific region, even to the point of overcoming past fears and concerns. Its investment and trade with the countries in Asia and the Pacific have increased substantially, to the point where Japan is perceived as the most important market for the countries of the region. Within the past decade, it has supplanted the United States. It has done so simply by acting in its own, best economic interests. It has utilized all of the resources that it has available from government and industry to evolve and implement a clear strategy that placed its trade and investment interests at the forefront of its foreign policy. Certainly it is a leading force in the economic integration of the region.

However, I believe that the United States can still capitalize on our comparative advantages in the Asia-Pacific region if we make a proactive decision to do so. We are still the leading market for Asian manufacturers. We are still the country of choice for education and training. Our companies still have a leading role in these countries, having gained a positive reputation for transferring technology and training local citizens. But our actions must begin from, and be driven by, a clear and consistent commitment that puts our economic and commercial interests at the forefront.

We must put forward a strategy that encompasses a positive approach, one that supports American trade and investment interests in this vital region. We must make this our priority, not because Japan has been so successful, but because it is simply in our best interests to do. Thank you.

[The prepared statement of Mr. Driscoll, together with an attachment, follows:]

## PREPARED STATEMENT OF ROBERT E. DRISCOLL

MR. CHAIRMAN,

Thank you for the for the opportunity to share my views on "Japan and the Asia-Pacific Region." You have asked me to discuss Japan's role in the regional economic integration of Asia and the Pacific, the consequences for the United States, and what the United States needs to do to improve our position in this region. From my perspective, there is no more important question for the United States than our role in the emerging economies of the Asia-Pacific region, and the strategies we need to pursue to assure our long-term position in the most dynamic region for trade and investment expansion for the coming decades.

While I will discuss my perspectives on the position of Japan in the region, I wish to concentrate on the final question you asked me to address, specifically, "the adequacy of U.S. government policy and what might be done to improve our position and the prospects for American firms."

I come to these hearings from the perspective of a private sector observer of our relations with this region. While my observations are personal, I do reflect the concerns of American companies that are seeking, on a daily basis, to increase our trade and investment in the Asia-Pacific region. The U.S.-ASEAN Council is the only national private sector organization dealing with U.S. economic and commercial interests in the countries of the Association of Southeast Asian Nations (ASEAN). The Council's member corporations all have substantial business in these countries, and wish to see our trade links with these countries continue to grow and prosper. The Council is unique in

that it not only seeks to eliminate barriers to trade and investment; it also works to encourage new-to-market companies to take advantage of the business opportunities in the ASEAN countries.

#### **JAPANESE PRESENCE IN ASIA**

There is no denying that Japanese companies are perceived to have a competitive advantage over U.S. firms in the Asia-Pacific region. Indeed, Japan has, of late, replaced the United States as the most important economy for most of the nations of Asia and the Pacific. Yet, the perceived comparative advantage of Japan is as much a result of a confluence of Japanese government and business objectives, as it is myopia on the part of the United States.

I say perceived competitive advantage because we are examining a phenomenon with flawed statistics, and with too little regard for history. American firms have been doing business in Southeast Asia for as many as 60 years, and in some cases even longer. U.S. investments in the electronics industry in Malaysia, for example, were started more than 20 years ago. Indeed, U.S. companies, including Motorola, Intel, National Semiconductor, pioneered this industry in Malaysia.

By contrast, Japanese investment is a more recent phenomenon. Japan has invested a total of \$ 27 billion, or more than double the official total of U.S. investment in ASEAN.

But Japanese firms are by no means invincible. Nor is the game yet over in terms of U.S. competitiveness in this region. Absent cheap capital -- a phenomenon that is clearly tied to the Japanese property and stock markets -- I believe that Japan will be hard pressed to continue its historic levels of investment in ASEAN and the Asian NICs, particularly in light of Japan's growing interests outside of the Asia-Pacific region. Indeed, there has been a noticeable slowing in Japanese investment in the ASEAN countries, in part due to demand for capital for investments elsewhere in the world. Japan's new investments in ASEAN declined 22% in 1991 compared to 1990. (See attachment I)

The form of Japanese investment has also increased trade linkages between Japan and the industrializing countries of Asia and the Pacific. Japanese private sector investments, as well as Japanese ODA transfers to ASEAN, have resulted in an increase in Japanese exports of capital goods, component parts and consumer goods to these countries. In return, ASEAN has increased the export of component parts and semi-manufactured products to Japan. This has been a major contributor to the rapid rise in intra-Asian trade.

Japanese investments in the Asia-Pacific region do present a clear competitive challenge to the United States. Japan views the region as its "backyard." Proximity is certainly one factor that has benefitted Japanese firms. Consistency is another. The close collaboration, and mutual support of Japanese business and

government, gives Japan advantages that are simply not available to American firms.

#### **AMERICAN PRESENCE IN THE ASIA-PACIFIC REGION**

One should not underestimate, however, the important stake that the United States has in the Asia-Pacific region, and particularly in the ASEAN countries. U.S. trade with the Asia-Pacific region has surpassed trade across the Atlantic, and is growing more rapidly. The six countries of the ASEAN region have collectively become our third largest overseas trading partner after the EC and Japan.

Only U.S. exports to Mexico have grown at a faster pace than our exports to the ASEAN countries and the rest of East Asia. From 1988 to 1991, U.S. exports to ASEAN increased by 60 percent, and with the rest of the region by 30 percent.

American firms export more to Singapore than to either Italy or Spain; more to Malaysia than to all of the former Soviet Union; more to Indonesia than to all of Eastern Europe. With the rapid rise in economic power in these countries, and improved standards of living, the Asian countries are increasingly important consumers of all kinds of capital and consumer goods -- markets that American firms must penetrate to remain globally competitive.

U.S. investment in the region is also sizeable. By official statistics, our investment in the ASEAN countries stands at

\$ 12.7 billion, and in the rest of East Asia at \$ 53.3 billion. These statistics substantially understate the stake that American firms have in this region. For example, a recent survey by the American Embassy in Malaysia put total U.S. investment in that country in excess of \$ 7.0 billion, with companies estimating annual investments of \$ 1.2 billion per year for each of the next three years. A similar survey by the U.S. Embassy in Singapore placed total U.S. investment there at \$ 9.0 billion. Based on similar surveys in the ASEAN countries, Embassy estimates put U.S. investment in these countries at more than \$ 30 billion -- or slightly larger than Japanese investment in the region.

U.S. investment is, however, narrowly based, and concentrated in large investments. U.S. oil and gas, electronics, chemical, and financial services companies dominate total investment in the region. Small and medium firms are, unfortunately, responding too slowly to the rapidly expanding opportunities throughout Asia and the Pacific.

#### **AMERICAN INTERESTS IN ASIA AND THE PACIFIC**

America's interests in Pacific Asia are long-standing. Our economic health is closely linked with our trade and economic interaction with the countries of East Asia. Our attention to the countries of East Asia should be driven by self-interest, therefore, and not merely as a reaction to a perceived increase in Japanese influence.



### Economic Versus Strategic Interests

We have long recognized the strategic importance of the Asia-Pacific countries to our national security interests. We have spent billions of dollars in maintaining forward military positions throughout the region.

Yet, in placing so much emphasis on our strategic interests, we have neglected to assess our economic and commercial interests adequately, and to define those interests in terms of a broader foreign economic policy for this region. We have not developed the means to balance our economic and commercial interests with other, often legitimate, national goals. Indeed, when there is a conflict between goals -- for example between trade and human rights -- our commercial interests are often sacrificed. The net result is that we are not viewed as a wholly reliable partner.

The integration of the Asian countries into the world economy has been on a unprecedented scale -- trade comprises, on average, more than 85 percent of the GDP of each of the ASEAN countries. Economic interests are, therefore, paramount from their perspective, and some U.S. actions are frequently misunderstood, since they are viewed as economically irrational.

### **A RATIONAL ECONOMIC POLICY TOWARD ASIA**

The United States needs to develop a clear, consistent economic policy toward the Asia-Pacific region. Such a policy will not only support our underlying economic and commercial interests, but will enable us to better achieve our broader

objectives in the region. Indeed, it is critical to our overall economic health and competitiveness in the global economy. If we fail to compete effectively in these high-growth markets, we will see our economic position deteriorate in other important markets.

Such a policy must place our commercial and economic interests at the forefront. I want to stress that it must begin with our interests in the region, and not simply to counteract rational actions by our competitors, including Japan.

It must involve a broad package that creates a policy framework that is clearly stated and understood not only by our friends, but by all branches of the U.S. Government. It must also consist of promotional activities to increase awareness and open new opportunities for American companies in this region.

Increasing American presence in the countries of the Asia-Pacific region need not involve major new budget outlays. Within the overall new strategy toward the Asia-Pacific region, there are several steps that can be taken which will not cost substantial sums, but which I believe will be quite effective in re-asserting U.S. interests in the Asia-Pacific region.

#### Increase high-level contacts

Underlying this new international economic strategy is the strength of the personal ties between America's leaders and those of our partners in Asia and the Pacific. The U.S.-ASEAN Council has long advocated increased attention on the part of the United States to the countries that comprise the Association of Southeast Asian Nations (ASEAN), as well as the rest of the Asia-

Pacific region. The U.S. Government must put itself in a better position to support U.S. trade and investment in the region. Doing so will require increased attention to the region, and more frequent contacts at all levels.

Simply stating that the region is important to the U.S. is insufficient. Actions are evaluated by the leaders of these countries, and they can count the number of high-level visits as a measure of our commitment.

President Bush's visit to Asia in January of this year was an important step in merging our political/security and economic/commercial interests. The decision to take leaders of key business associations with him has been much maligned in the press. Yet, it did demonstrate to our Asian partners a commitment by the U.S. Government to commercial issues at the highest levels. And it sent a clear message that American business understands that our economic strength is inevitably linked to the Asia-Pacific region.

Every government to government contact should aim to reinforce our commercial interests in Asia. For example, senior U.S. Government leaders should seriously consider an accompanying business delegation on their travels to Asia. Such a delegation will reinforce the partnership between business and government that is essential to our competitiveness. State governors have recognized the importance of this partnership, and are beginning to include business executives on their travels to Southeast Asia.

### Policy Framework

The United States has a substantial stock of good will among all of the countries of the Asia-Pacific region. Yet, without an overall policy framework which places priority on our trade and investment interests in this region, we will see that goodwill gradually erode. While most of my comments can be expanded to the entire region, I will focus on building a stronger base for our relations with the nations of ASEAN.

The most important element of a policy framework is to place our trade and investment interests at the forefront. In the post-cold war environment, and particularly in Asia, these issues are paramount in the minds of our trading partners. Our partners expect that these concerns will have the same weight for the United States, and are frequently puzzled when we fail to act in what they view as a rational manner.

Putting trade and investment at the forefront does not mean that we forfeit our ability to pursue other legitimate interests; it simply means that we will seek to achieve those interests through means that will not adversely affect our competitiveness or risk the continued expansion of our trade interests.

Last year, President Bush announced the Enterprise for the Americas Initiative, and the negotiation of the North American Free Trade Agreement. We need a similarly broad and forward looking initiative for the ASEAN nations.

At the core of a forward looking policy toward the ASEAN countries should be the negotiation of a free trade agreement

(FTA). We have as much to gain from such an agreement as do the ASEAN nations. An FTA could help assure that our trade with the ASEAN countries continues to grow at double digit rates. It will enhance our competitiveness in this region. While it could also help counteract the rising importance of Japan, an FTA should be negotiated because it is in our economic interests.

Elements in a policy strategy toward ASEAN should include the establishment of bilateral trade and investment framework agreements aimed at increasing trade and lowering barriers. These can be the forerunners of an FTA, and establish continuity in our consultations on trade and investment issues with our ASEAN partners. These agreements, properly structured and implemented, will serve as a base for negotiation of a variety of trade concerns, including expanded protection of intellectual property rights, reduction in tariff and non-tariff barriers, market access and other key trade policy concerns.

Other elements in the overall policy strategy include bilateral double taxation treaties. Without these treaties, American companies are disadvantaged in all of the ASEAN markets (except Indonesia, with which we have a tax treaty). Top priority should be placed on completing negotiations on these treaties as quickly as possible. Supplementing these agreements, we should seek bilateral investment and intellectual property agreements. We are presently negotiating a bilateral investment treaty with Singapore, and have negotiations underway for

bilateral double taxation agreements with Thailand and Malaysia. However, there needs to be greater urgency in these negotiations.

These elements, taken together, represent a significant expansion of our relations with the ASEAN nations. They present a strategy of interactions and engagement, and a commitment to continued growth in our trade and investment with these countries. We must, however, move on all of these agreements as an integrated package -- not simply as a series of separate and independent agreements.

To put this program in place will require the full support of the highest levels of the Administration and the Congress. But it will reap considerable rewards for American competitiveness.

#### Increased Promotion

While American interests in the Asia-Pacific region are substantial, there are major opportunities for expansion of our trade and investment links. Our exports to the region are dominated by too few American companies, and our investments are concentrated in too few sectors. More U.S. companies need to participate in the growing opportunities in this dynamic region.

Information and promotion are the first steps -- we need to make more companies aware of the potential for their products in Asia and the Pacific. Greater coordination and support for American business interests, including improved financing, are additional elements of a U.S. government program to help U.S. business be successful in the Asia-Pacific markets.

Fundamentally, Asia needs to be given the attention that our largest market deserves, particularly by U.S. government agencies, if we are to preserve our share of this rapidly expanding marketplace. But, promotion is the responsibility of both the government and the private sector. Access to information on market opportunities needs to be broadened. More trade and investment missions to Asia need to be sponsored -- by both the government and private industry groups.

The U.S.-ASEAN Council, for example, recently organized a tour of seven U.S. cities by the American ambassadors and senior commercial officers to five ASEAN nations to inform U.S. business of the opportunities for trade and investment with this region. The program was financially supported by American corporations, with some government assistance. A report on the Tour is attached to this testimony for your review. A repeat Tour is planned for early 1993.

It is important to note several conclusions from the U.S. Ambassadors' Tour. (See Attachment II) First and foremost, is the clear interest of small and medium firms in the opportunities for trade and investment in ASEAN, and in the entire Asia-Pacific region. Over 2,500 business executives, government officials and academics met with the Ambassadors during their two-week Tour. This was an unprecedented response, and one that demonstrates that American business wants to participate in the markets of Southeast Asia.

A second conclusion is the need for assistance in finding market opportunities, partners, and in "learning the ropes" of doing business in Asia. Greater coordination among all government agencies, and a concentration on meeting the specific needs of business was called for at virtually every stop. The fact that the Ambassador stressed the commercial role of the Embassy, and the coordination between the Departments of Commerce and State (as well as other agencies with offices in the Embassies) was cheered by business as a first step toward providing the kind of support for business that many of our competitor countries have been giving for years.

A third conclusion is the need for greater access to trade finance. This is an area of continuing concern, particularly to smaller companies without a great deal of experience in international trade transactions. Financing for smaller transactions, and on terms that are familiar to U.S. companies is generally not available. EXIM and the Small Business Administration are moving to respond to this concern, and the Trade Promotion Coordinating Committee has looked into how the U.S. Government might address this concern.

A fourth conclusion is that there is a need for greater coordination among all U.S. Government agencies, and with the states. Small and medium companies simply do not know how to use the extensive services that are available from federal agencies. Further, there is confusion among these firms as to which agency provides what kind of assistance. The Trade Promotion



Coordinating Committee is a positive development, as it brings together all of the agencies involved in international business promotion.

#### CONCLUSION

Japan has aggressively exploited its comparative advantages in the Asia-Pacific region, even to the point of overcoming past fears and concerns. Its investment and trade with the countries of Asia and the Pacific have increased substantially, to the point that Japan is perceived as the premier source of capital and the most important market for the countries of the region. Within the past decade, it has supplanted the United States as the pre-eminent economy in the Asia-Pacific region.

It has done so simply by acting in its own best economic interests. It has utilized all of the resources available -- from the government and from industry -- to evolve and implement a clear strategy that placed its trade and investment interests at the forefront of its foreign policy.

Certainly, it is a leading force in the economic integration of the region. But the game is not over.

The United States can yet capitalize on our own comparative advantages in the Asia-Pacific region, if we chose to do so. We are still the leading market for Asian manufacturers; we are still the country of choice for education and training. Our companies still have a leading role in these countries, having

gained a strong and positive reputation for transferring technology and training local citizens.

But our actions must begin from, and be driven by, a clear and consistent commitment that puts our economic and commercial interests at the forefront. We must put forward a strategy that encompasses a positive approach, one that supports American trade and investment interests in this vital region. We must make this our priority, not because the Japanese have been successful, but because it is in our own best interests to do so.

Council Chairman Maurice R. Greenberg, in a policy address in early 1991 stated:

Our competitors have recognized the enormous potential of the ASEAN countries. They have established an impressive array of tax and financial incentives for their own companies to invest overseas, particularly in Southeast Asia...I believe we need to mount a concerted effort, led by the private sector, but in partnership with government, to increase the competitiveness of U.S. industry in ASEAN and to enhance the importance of these markets to American companies. The challenge is to craft a clear national strategy to make our nation more competitive in ASEAN and other critical areas of the world in the 1990's...The goal of this new strategy should be to have many more American companies trading with and investing in the ASEAN region.

The ideas I have outlined above are key elements of such a national strategy.

# US ASEAN

U.S.-ASEAN COUNCIL  
for Business and  
Technology, Inc.

1400 L Street, N.W.  
Suite 650  
Washington, D.C. 20  
202-289-1911  
Fax: 202-289-0519

## 1991 Foreign Investment in ASEAN: Asian Investment Down, U.S. Investment Up

Foreign investment data for ASEAN in 1991 show a decline in Asian investment in the region compared to 1990 figures. U.S. investment, on the other hand, increased by nearly 38 percent during the same period.

Japan remained the number one foreign investor in ASEAN, despite the fact that the value of its investment approvals in the region declined 32 percent from US\$4.8 billion in 1990 to US\$3.3 billion last year. Japan also ceded the number one spot in Indonesia and the Philippines, to Taiwan and the U.K., respectively. Taiwan ranked second once again. However, its investment in ASEAN fell 22 percent from US\$3.2 billion in 1990 to US\$2.5 billion last year. Investment from Hong Kong and South Korea also dropped in 1991.

Meanwhile, the U.S. climbed up from fourth to third place, with approvals amounting to nearly US\$1.8 billion last year compared to US\$1.1 billion in 1990. The U.S. was followed by the U.K. (US\$1.1 billion), Singapore (US\$970 million), Hong Kong (US\$955 million), and South Korea (US\$952 million).

The following table lists investment figures by investor and host country. Readers are cautioned that the table refers to proposals and approvals, and does not necessarily reflect actual foreign investment expenditures. Some projects may not be carried out and some types of projects are not included. Likewise, re-investment and investments not requiring government approval may not be counted.

Foreign Investor Activity in ASEAN, 1991  
(Millions of U.S. Dollars)

INDONESIA (1)		MALAYSIA (2)		PHILIPPINES (3)		SINGAPORE (4)		THAILAND (5)	
Taiwan	1,057	Taiwan	1,290	U.K.	285	U.S.	561	Japan	611
Japan	929	Japan	1,148	Japan	208	Japan	413	Hong Kong	459
U.K.	538	U.S.	627	U.S.	87	Netherlands	125	Singapore	251
Singapore	344	South Korea	607	South Korea	44	U.K.	108	U.S.	231
Switzerland	308	Indonesia	449	China	20	France	43	Taiwan	110
South Korea	301	Singapore	373	Taiwan	12	Italy	40	Germany	31
Hong Kong	278	Hong Kong	218	Virgin Islands	10	Germany	35	Netherlands	31
U.S.	276	U.K.	196	Germany	9	Others	100	U.K.	12
Others	4,771	Others	893	Others	65			Others	150
1991 Total:	8,800	1991 Total:	8,802	1991 Total:	760	1991 Total:	1,425	1991 Total:	1,328
1990 Total:	6,750	1990 Total:	6,518	1990 Total:	961	1990 Total:	1,224	1990 Total:	1,382

NOTE: Figures from different countries are not strictly comparable given the different definitions used (see below). Figures in national currencies were converted into dollar figures using 1991 average exchange rates, as listed in the International Financial Statistics.

(1) Total foreign capital in projects approved by BKPM (Capital Investment Coordinating Board), excluding Oct. - December 1991. Source: BKPM.

(2) Proposed total foreign capital investment in projects approved by MIDA (Malaysia Industrial Development Authority) in 1991. Source: MIDA.

(3) Foreign equity investment registered with the Board of Investment, January - December 1991. Source: BOI.

(4) Foreign investment commitments, 1991. Source: Singapore Economic Survey, 1991.

(5) Bank of Thailand estimates of registered foreign capital investment - 1991.

U.S.-ASEAN COUNCIL  
for Business and  
Technology, Inc.

1400 L Street, N.W.  
Suite 650  
Washington, D.C. 20005  
202-289-1911  
Fax: 202-289-0519

## FINAL REPORT

### U.S. AMBASSADORS TOUR 1992

#### EXECUTIVE SUMMARY

##### OVERVIEW

To fulfill a commitment made by President George Bush in Singapore during his visit in January, 1992, five U.S. Ambassadors and their Senior Commercial Officers from the Association of Southeast Asian (ASEAN) countries toured the following cities to promote American business abroad:

*Portland, Oregon -- March 20*  
*Chicago, Illinois -- March 23*  
*Detroit, Michigan -- March 25*  
*Atlanta, Georgia -- March 27*  
*Houston, Texas -- March 30*  
*Washington, D.C. -- April 1*  
*New York, New York -- April 2*

##### CONCLUSIONS

The U.S. Ambassadors' Tour 1992 was an unprecedented effort by federal and state governments and private firms to introduce U.S. companies to the business opportunities in the countries of the Association of Southeast Asian Nations (ASEAN, including Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand). Following are highlights and conclusions from the Tour.

- **Education & Awareness.** The Tour vastly increased the awareness of ASEAN within the U.S. business community -- Tour members met with over 2,500 business executives, federal, state and city government officials, and students during the trip.
- **U.S. Business Looking to ASEAN for Growth.** According to questionnaires completed by Tour participants, ninety-four (94) percent of participants plan to pursue business opportunities in ASEAN countries. Seventy-two (72) percent said they will travel to ASEAN to develop business contacts. Eighty-five (85) percent said they learned about ASEAN markets for their industry, and sixty-eight (68) percent said the Tour sparked their interest to pursue ASEAN business opportunities.

- **Leadership is Critical.** Executive level leadership, in government and business, was critical to garner the resources to organize and promote the Tour. President Bush wrote letters for promotional materials and a message to be read at the seminars. Governors of three states (Oregon, Illinois, and Georgia) participated in meetings and seminars. Twenty-nine (29) chairmen and presidents of sponsoring companies made keynote presentations and hosted events. This leadership ensured cooperation and facilitated promotion.
- **Private-Public Cooperation.** The Tour was made possible by unparalleled cooperation between the private and public sectors. Twenty private companies, and more than 25 private organizations supported the Tour through financial and in-kind contributions. Federal and state agencies also actively participated in the program.
- **Interagency Government Coordination.** Coordination among U.S. Government agencies was a key to the success of the Mission. The Trade Promotion Coordinating Committee (TPCC) provided an important vehicle for exchange of information and coordinating federal agencies. The Tour proved that agencies have compatible strengths that, used in cooperation with private sector resources, can provide much-needed support for American companies seeking to expand foreign markets.
- **Businesses Want Help.** American companies, large and small, are interested in international opportunities and new markets, but many that are new to export or new to Southeast Asia are unsure how to begin. Many are unfamiliar with U.S. Government programs, and the role of U.S. Embassies, ambassadors, and commercial officers. The Tour explicitly addressed the needs of these companies. Eighty-two (82) percent of Tour participants said they would seek government assistance in pursuing transactions in ASEAN.
- **Inadequate Export Finance is Barrier.** Lack of export finance was cited as a principal barrier to expansion of U.S. exports, particularly for smaller and medium-sized companies, and for firms that are entering international markets for the first time. Participants complained that neither the money center nor regional banks are aggressively pursuing this business.
- **Exporters Have the Advantage.** Exporting companies have a clear advantage over non-exporting companies. Several success stories unveiled during the Tour showed that exporting firms with market share in ASEAN have weathered domestic economic down-cycles and maintained and expanded their workforces, while non-exporters have been experienced sales cuts, closed plants and lost jobs.
- **Embassies Now Have a Commercial Emphasis.** The Ambassadors reinforced the important role that the Embassy has in supporting American companies seeking international trade and investment opportunities.

- **Follow-up is Needed.** The full potential of the Tour will be achieved only if there is active follow-up with the participating companies and continued promotion of opportunities in ASEAN markets.

On a broader scale, the Tour elevated the importance of U.S. economic and commercial relations with the ASEAN nations.

## RECOMMENDATIONS

Based on reactions from the business participants, impressions of the organizers and ambassadors and senior commercial officers, the following recommendations are made:

- **Repeat the Tour.** The Tour was a success and should be repeated. A U.S. Ambassadors Tour 1993 should be organized. Requests have already been made for Tour stops in Cincinnati, Los Angeles, Portland, Seattle, New Orleans, Minneapolis, Dallas, Denver, Boston and New York. Several corporate sponsors of the 1992 Tour have indicated their interest in sponsoring a similar program in 1993. In addition, a parallel tour of the ASEAN Ambassadors to the United States, their Commercial Counselors, and private ASEAN business leaders should be organized to maintain the momentum of growing interest in ASEAN created by the U.S. Ambassadors' Tour '92 and President Bush's visit to Singapore in January 1992.
- **Encourage Private Sector Cooperation.** Private sector input should be sought and encouraged in efforts to boost trade and investment services. Business councils, trade and industry associations, and other multiplier organizations should play a fundamental role in the design and implementation of trade and investment promotion programs.
- **Economic/Commercial Focus for Government.** Given the increasing importance of commercial issues facing all aspects of the diplomatic corps, more attention needs to be given to the on-going economic and business education provided to members of the foreign service. Practical courses should be provided at the Foreign Service Institute, and specialized, longer-term programs should be organized with leading business schools. The U.S.-ASEAN Council will establish an ad-hoc committee of corporate members to review this issue and make recommendations.
- **Extend Inter-Agency Coordination.** The Trade Policy Coordinating Committee, chaired by the U.S. Department of Commerce, has worked well in Washington, D.C. to facilitate communications and coordination among federal agencies. In the field, each embassy should consider establishing a TPCC, or Country Commercial Team, to be chaired by the Ambassador, and coordinated by the Senior Commercial Officer. The team should include all agencies which could contribute to U.S. competitiveness, such as the Foreign Agricultural Service, the Agency for International Development, U.S. Information Agency, the Economic Section, FAA, as well as representatives from the American

Chamber of Commerce and other private sector organizations, such as the Private Investment and Trade Opportunity (PITO) offices in ASEAN.

- One-Stop-Shop. A one-stop-shop providing access and assistance to U.S. businesses seeking international business opportunities is needed. The Trade Information Center established by the Department of Commerce under TPCC is an important step in the right direction. The one-stop-shop needs to be advertised better; few of the seminar participants knew of it. Additionally, a large number of the participants were unaware of the services available through federal government agencies.
- Provide Export Financing. Export financing needs to be increased if the United States is to become an export driven economy. There is clear interest in international opportunities, and American companies do have competitive products. Financing for exports is simply not being provided in sufficient amounts by U.S. commercial banks. Further, there are many companies that are not aware of federal and state export finance programs. Others have experienced difficulty in accessing these programs. Working capital and receivable financing for smaller companies was a frequently cited need. Closer coordination among federal and state agencies could alleviate some of these problems. The private sector (financial services companies, banks, venture capitalists) should be encouraged to participate in solving this problem.
- Increase Business Support Programs. An aggressive agenda of programs, including market development missions, seminars and information services, need to be developed as part of a coordinated, pro-active follow-up to the Tour. The private sector should be involved in designing and implementing these programs. Surveys should also be taken to determine the business results of the Tour. Specific recommendations are made in the follow-up section of the full report.
- Media Should Support Focus on Business. Increasing the U.S. media's understanding of the importance and benefits of American expansion in international markets must have high priority if the United States is to become an export driven economy. A program to introduce journalists to ASEAN and other international markets should be considered as a high priority by the U.S. Government. Much of the current reporting on developing country markets tends to be on political issues, rather than on economic/commercial matters. More data on commercial and economic benefits should be provided, with government encouragement and support.

## FINAL REPORT

### U.S. AMBASSADORS' TOUR 1992

#### BACKGROUND

The U.S. Ambassadors' Tour 1992 was organized because of a recognition among the U.S. Ambassadors to the ASEAN countries and private companies operating in the region that U.S. companies were missing substantial commercial opportunities in world's premier growth region. After discussions between the ambassadors and the U.S.-ASEAN Council, it was agreed that a U.S. Ambassadors' Tour to the United States could be organized only if unprecedented coordination between the government agencies and the private sector could be achieved. The government agencies and private companies that sponsored the Tour met the challenge and the Tour was organized and was a great success.

As one Ambassador stated: "We're here (on this Tour) because not enough of you are there." The fact that the Tour could be organized at all is an indication of a significant shift in emphasis within the U.S. Department of State toward recognizing the commercial role of the ambassador, and the importance that U.S. business places on the assistance that ambassadors can provide in highly competitive situations.

The participation of the Senior Commercial Officers and representatives of the U.S. private sector in ASEAN (American Chambers of Commerce) was an important dimension of the Tour. These individuals were able to respond to practical, hands-on questions raised by the business participants.

The concept of the Tour is described more fully in *Attachment A: "U.S. Ambassadors' Tour 1992: Concept and Background"*.

#### THE U.S. AMBASSADORS' TOUR TRAVELLING TEAM

The team of experts who led and travelled with the Tour were comprised of the five (5) U.S. ambassadors to Indonesia, Malaysia, Philippines, Singapore and Thailand, the five (5) senior commercial officers from these Posts, four (4) leaders of the American Chambers of Commerce in ASEAN countries, one (1) member of the ASEAN-U.S. Business Council from the Philippines, and three (3) members of the U.S.-ASEAN Council. These individuals are listed in separately in *Attachment B: "Travelling Team Members"*.

This combination of senior officials and private business executives provided unparalleled resources to the U.S. business participants. The practical experience of the Tour Team made it possible to answer participants' questions about how to get started, how to find an agent,



partner, or obtain information on the markets in the region. The practical experience of the senior commercial counsellors complemented the vision and overview provided by the ambassadors. Private sector executives gave their U.S.-based counterparts insight into the subtleties of conducting business in ASEAN countries, and how to use U.S. and ASEAN governments support programs.

## FEDERAL GOVERNMENT PARTICIPATION

Executive leadership from President Bush facilitated federal government support for the Tour. During his trip to Singapore in January, 1992, the President committed to the concept of bringing "his team from ASEAN" back to the United States to meet with businesses and help them take advantage of dynamic ASEAN markets. The President then followed-up by writing a letter to promote the Tour, sending a message to seminar participants, and meeting with the Ambassadors at the end of the Tour to be debriefed. Copies of the President's letter can be found in *Attachment C: "Federal Government Participation: Executive Branch Support"*.

The Asia/Pacific Sub-Committee of the Trade Promotion Coordination Committee (TPCC) chaired by the U.S. Department of Commerce played a critical role in organizing the support and participation of over fifteen (15) U.S. Government agencies. Nine (9) agencies provided personnel to travel with the Tour and speak to corporate participants around the country. They described how to find and use government support services. The U.S. Department of State, U.S. Department of Commerce, U.S. Agency for International Development and Small Business Administration were primary U.S. Government sponsors of the Tour, providing extensive personnel and financial resources to make the event possible.

The U.S. Department of State and U.S. Department of Commerce made tremendous commitments of resources in terms of the time and expertise of their senior personnel (the ambassadors and senior commercial officers). The Small Business Administration assisted financially by covering the mailing costs for the seminar promotional brochures. Information development was partially supported by the Private Investment and Trade Opportunities (PITO) project of the Agency for International Development's ASEAN Regional Program.

Eighty-four (84) percent of the Tour participants rated the U.S. Government input, including materials handed out, presentations, and one-on-one counselling as "great" or "good". Eighty-two (82) percent said they will pursue and use government support for the ASEAN market development work.

A roster of U.S. Government agencies and personnel that participated in the Tour can be found in *Attachment D: "Federal Government Agencies and Personnel"*.

## PRIVATE SECTOR SUPPORT

The success of the tour should be attributed to the high level of cooperation between the public and private sector's involvement in the program. The Tour was funded predominantly by U.S.-ASEAN Council corporate members, who provided both local and national sponsorship.

Corporate sponsors provided outstanding financial and in-kind support. Companies donated the time of their senior staffs to work with the U.S.-ASEAN Council and government agencies on promotion, media outreach, industry targeting, venue and transportation logistics, and other organizational items. The corporate sponsors for the Tour are listed in *Attachment E: "Corporate Sponsors"*.

An estimated \$500,000 in private cash and in-kind contributions were raised to support this event whose primary beneficiaries were small and medium sized U.S. companies seeking information on Southeast Asian markets and support programs for trade and investment. In addition, companies made substantial time commitments in support of Tour objectives.

Leadership provided by chairman and presidents of sponsoring companies was the prime mover behind private sector support. Business leaders who sponsored the Tour maintained a vision and commitment to making the Tour a success. They recognize the importance of ASEAN and wish to support the cooperative relationship between business and government. Leaders committed their staffs to support the organization of the Tour, made keynote presentations at seminars, and sponsored events and meetings. A roster of keynote speakers can be found in *Attachment F: "Private Sector Support: Keynote Speakers"*.

Because the Tour was underwritten by corporate funding, seminar registration fees were kept deliberately low, making it a cost-effective vehicle for smaller businesses to get substantive information on export and investment opportunities in the ASEAN region.

## ASEAN GOVERNMENT PARTICIPATION

Several ASEAN government trade and investment agencies based in the United States participated in the Tour. These agencies provided expert support on how to do business in their respective countries. ASEAN government participation added an Asian perspective to the Tour, and helped new to market U.S. companies build their network of support contacts. These ASEAN agencies provided market information, data on trade and investment regulations, advice on how to approach ASEAN partners and customers, and information on how to source products and services in ASEAN countries. A roster of contacts can be found in *Attachment G: "ASEAN Government Agencies and Personnel"*.

## LOCAL AND STATE PARTICIPATION

To organize locally and recruit at the grass roots level, the Council depended on the support and cooperation of local and state organizations. The strong support of key organizations in each of the cities visited was critical to the Tour's success.

State international trade offices and departments of commerce worked closely with private organizations in each locality. This combination of private and public resources and capabilities assured strong local support and success in each city visited. The regional and district offices of the U.S. Department of Commerce and the Small Business Administration also strongly supported the marketing effort for the Tour. A roster of state and local contacts can be found in *Attachment H: "Local and State Agencies and Organizations"*.

On a national scale, the Business Council for International Understanding (BCIU) assisted in organizing breakfast meetings with the business community in each city. The National Association of Manufacturers assisted in promotion of the event in each city.

## INDUSTRY FOCUS

The distribution of participants closely paralleled the industry focus of the seminars. The seminars highlighted business opportunities in 11 market sectors, which were selected for their high growth potential and U.S. industry competitiveness. The target sectors were:

Agribusiness  
 Automotive parts & components  
 Wood and forest products  
 Environmental protection  
 High tech: computers, telecommunications & electronics  
 Food processing and packaging  
 Health care/medical equipment  
 Machine tools & industrial equipment  
 Energy (oil, gas & electric power equipment/services)  
 Energy conservation/renewable energy  
 Power generation equipment

To heighten the utility of the seminars, "best sector" areas were selected for focus in each city. Sectors were chosen on the basis of American companies having a competitive advantage in the industry, and a demand for products, services, or technologies in the ASEAN countries. Density of companies in the industry sectors in each region of the United States was also factored into the decision.

Data to support selection was derived from U.S. Department of Commerce, U.S. ASEAN Council market research, U.S. Small Business Administration, U.S. Department of Agriculture, U.S. Agency for International Development, U.S. Department of State, state governments and trade/industry associations.

## PROGRAM REVIEW

The Tour agenda was structured to maximize the opportunity for the Ambassadors and their Team convey the message of the growth potential for U.S. business in ASEAN. A full day seminar was held in each of five (5) cities. Breakfast and dinner meetings, receptions and other briefings were held with business groups, state and local governments, press, and universities to augment the schedule. An annotated Tour agenda can be found in *Attachment I: "Tour Agenda"*.

### Business Participation

Taking into account all the various meetings that were scheduled during the 15 day trip, the team met with approximately 2,500 business people. In addition to the seminars, meetings were held to attract targeted audiences in each city, including academia, political leaders, business leaders, and focus groups (e.g. Women in International Marketing, food industry executives, financial community, industry associations, etc.).

The attendance at seminars in each city was as follows:

- TOTAL ATTENDANCE - 1,243 (seminars only)
- Portland - 335
- Chicago - 285
- Detroit - 178
- Atlanta - 211
- Houston - 234

Seminar participants represented primarily senior executives of small and medium companies. They were drawn principally from manufacturing companies. The distribution of participation by industry sector can be found displayed graphically in *Attachment J: "Seminar Participants by Industry Sector"*.

### Media Coverage

Media was a key focus of the Council in organizing the Tour. It was used to promote the Tour, in advance of the event. During the event, media was used to multiply and disperse the message the Ambassadors and Senior Commercial Officers had come to deliver. A Media Specialist was hired by the Council specifically to manage press outreach.

Media was contacted on a national, regional, interest and industry-specific basis to promote the Tour. Media interest was good, but had to be developed extensively through constant phone and fax contact and interviews. In total, ASEAN media coverage was more active and complete than coverage in the United States.

During the Tour, the Ambassadors held press conferences in each city, and several editorial board sessions and radio and television interviews, focusing on local media. The Tour team was successful in obtaining substantial national and international coverage. In the U.S., the Tour received coverage in such publications as:

*The Washington Post*  
*The International Herald Tribune*  
*The Oregonian*  
*Crain's Chicago Business*  
*The Journal of Commerce*

*The Detroit Free Press*  
*Crain's Detroit Business*  
*Far Eastern Economic Review*  
*The Atlanta Constitution*

Stories were filed by the Associated Press and Reuters in several cities. The Ambassadors participated in Editorial Boards at the Washington Post, Detroit News, Detroit Free Press, and appeared on Business Asia, a live CNN International broadcast to the Asia-Pacific region.

The U.S. Information Agency (USIA) provided substantial support to the press efforts by detailing staff to travel with the group to provide tour coverage in the ASEAN region. According to USIA and the U.S. Information Service (USIS) coverage of the Tour received approximately 85 placements in ASEAN publications.

A report summarizing the press coverage and promotion for the Tour and selected domestic and international articles are attached in *Attachment K: "Media Coverage"*.

## Seminar Evaluation

An evaluation form was handed out to each seminar participant asking them to rate on a range from great to poor, the overall program, materials, presentations, usefulness, logistics, areas for improvement. Based on the results of the seminar evaluation forms, the overwhelming response ranged from "Great" to "Good".

The Tour team successfully delivered the message that U.S. firms can grow in ASEAN. An unusually high number of participants indicated their commitment to taking the next steps after the Tour. Ninety-four (94) percent of participants indicated that they plan to pursue business opportunities in ASEAN countries. Seventy-two (72) percent said they will travel to ASEAN to develop business contacts.

For a summary of participant comments and suggestions please refer to *Attachment L: "Seminar Evaluation Summary"*.

Each seminar participant was asked to write down the most important question he had about entering ASEAN markets on his seminar registration form. The questions were insightful and indicative of concerns U.S. businesses have about ASEAN and about government support programs. Intellectual property, how to access data on markets and partners, and financing were primary themes. A selection of representative business questions asked by seminar participants can be found in *Attachment M: "Sample of Seminar Participants' Questions"*.

## FOLLOW UP

Follow up to the Tour is now being planned by the Council, in conjunction with the TPCC. The Council recommends that an aggressive agenda of ASEAN focused events be scheduled, with private and public sector input, to maintain the momentum built up by President Bush's January trip to the region and the Tour. The Council also recommends that seminar participants receive invitations to programs outlined below as a follow-up to the Tour.

### Missions

Food Processing & Packaging Mission and Seminars in June. FP&P Tour participants will receive announcements of programs in San Francisco, Chicago and New Orleans.

Department of Commerce Missions and Seminars. USAC will announce all DOC missions and programs in ASEAN to Tour participants.

State Missions. Three states are considering business missions to ASEAN; Ohio is scheduled for September; Georgia and Oklahoma are considering programs.

**Missions (cont.)**

**State Information Services.** TPCC and USAC will cooperate with states in seminars and other programs to extend awareness of the business opportunities in ASEAN. This will include briefings for state officials as well as for industry executives.

**Industry Associations.** Some interest in missions to ASEAN has been expressed by industry associations. TPCC and USAC will cooperate and provide assistance in USA and in ASEAN for these missions.

**Seminars**

**ASEAN Ambassadors' Tour '92.** A proposal has been sent to the ASEAN Washington Committee (AWC) for a Tour by ASEAN Ambassadors and ASEAN CEO's of three U.S. cities and Washington. This Tour is planned for September. The cities have not yet been selected.

**TPCC Follow-Up Seminars.** USAC will announce and support other TPCC follow-up seminars and programs.

**1993 U.S. Ambassadors Tour.** Planning is already underway for next year. Tentative pick of cities: Seattle, Denver, New Orleans (or Dallas) Cincinnati and New York.

**Other Assistance**

**Information Requests.** To be filled by USAC, PITO and FCS. USAC will keep and advertise 1-800 telephone service for these requests.

**Referrals.** USAC will refer Tour participants to relevant agencies and other support services.

**Tracking.** A follow-up survey is planned to determine how participants benefitted from the Tour. Questions would ask how firms used the information obtained at the seminar, how many are planning or have taken trips to ASEAN, and how many transactions have resulted.

REPRESENTATIVE HAMILTON. Mr. Patrick, please proceed.

**STATEMENT OF HUGH PATRICK, R.D. CALKINS PROFESSOR  
OF INTERNATIONAL BUSINESS, AND DIRECTOR OF THE  
CENTER ON JAPANESE ECONOMY AND BUSINESS,  
COLUMBIA UNIVERSITY GRADUATE SCHOOL OF BUSINESS**

MR. PATRICK. Thank you, Mr. Chairman.

For the record, my prepared statement addresses the issues of the international trading system in an Asian-Pacific context, with special emphasis on the respective roles of Japan and the United States, and the U.S.-Japan alliance.

I make four main points in my prepared statement. I want to address two of those issues: The nature of Japan's expanding presence in the Asia-Pacific, and what appropriate U.S. Government policy should be.

First, the economies of the Asian-Pacific region have been for the past decade, and will be for the foreseeable future, the most rapidly growing, the most dynamic, the most trade oriented in the world. They provide immense opportunity for U.S. business, in exports and foreign investment, as well as a strong competitive challenge.

The two key players in the region are, of course, the United States and Japan. The economic interaction among the Asian-Pacific economies has grown dramatically, but it is a natural consequence of rapid growth in GNP and trade. It has been accomplished by businessmen responding to economic opportunities in a market environment, in what culturally is probably the most heterogeneous region in the world. While government policies are often supportive, they are predominantly global in orientation rather than targeted on the Asia-Pacific region.

Second, the key economic challenge to the Asia-Pacific region is whether the GATT-based multilateral trading system will persist and be strengthened, or whether it will deteriorate into two or three major trading blocs—one world, two worlds, or three—as I have titled my prepared statement. By one world, I mean the global system in whatever new world order emerges. Two words consist of Europe on the one hand, and the United States and Japan and the rest of Asia on the other.

Three worlds is really the worst of all worlds for all the countries in the region. It consists of inward-looking Europe, an inward looking, expanded NAFTA Western Hemisphere, based on an isolationistic policy of the United States, and a reactive Asia-Pacific region led by Japan.

By inward looking, I mean not just natural regional economic relationships, based on such economic factors as distance and transport costs, and respective endowments of capital, skilled labor, unskilled labor, and natural resources, or their lack of, but trading blocs formed by governments which give substantial preferences to members and raise barriers to outsiders. Such trading blocs are pernicious and dangerous.

One key issue for this Subcommittee is whether such a bloc will emerge in the Asia-Pacific. My judgment is that Japan does not want such a bloc, and that such a bloc would emerge only, but probably inevitably, in reaction to an American-Western Hemisphere regional trading policy which excluded Japan and other Asia-Pacific economies.



One view is that the U.S. position is declining relative to others, especially Japan. The other is that the U.S. position in the area has been becoming increasingly large and important.

U.S. exports are rising as a share of GNP, and our exports to the Asia-Pacific are rising as a share of our total exports. Our direct investment in the region, as a whole, has gone from \$29 billion in 1985 to \$62 billion in 1990, and that has been a relatively constant 16 percent of U.S. foreign direct investment.

Both of these views are correct. The U.S. economic position is rising absolutely in this most dynamic region, but declining relatively to the more rapidly growing Japan. But the U.S. role and position in the Asia-Pacific goes far beyond economics. The United States is widely and correctly perceived as both the leader in the maintenance of the global economic system and leader in the maintenance of peace and security in the Asia-Pacific region. For many nations, the United States is a model for democracy and for the promotion of human rights.

The United States has not retreated economically, politically, militarily, or culturally from the Asia-Pacific, and it should not. Nonetheless, we must accept the reality that the Japanese and business economic presence in the region will continue to expand over the longer run as Japan comes out of its current recession and domestic financial problems.

Part of the reason is sheer geography, which also explains why such a large percentage of Japanese ODA has been devoted to that region. Part is that the Japanese economy over the next decade will grow faster than the U.S. economy. Structural adjustments in Japan, with its high-wage rates and profound yen appreciation since 1985, will necessitate further investment abroad in labor-intensive industries, and that will happen mainly in the cheaper countries of Asia. So, over the next decade, Japan will import substantially more labor-intensive manufacturers from the region and will engage in further direct investment in the region.

Fourth, the key to stability in the Asia-Pacific is the U.S.-Japan security treaty and more broadly the U.S.-Japan alliance. While the Cold War rationale for the security treaty has been substantially reduced, a new and equally important rationale has emerged.

There are two reasons why maintenance of a close, friendly and constructive relationship with the U.S.-Japan alliance is more in America's interests than ever before. One is a new security issue. The other Asian countries fear a potentially resurgent Japanese militarism and so, too, do many Japanese, as evidenced by recent debate over legislation to allow 2,000 Japanese soldiers to serve in U.N. peacekeeping operations in non-combat roles.

It is far less expensive to maintain U.S. military in Japan than the United States itself, since the Japanese taxpayer, rather than the American taxpayer, pays a major share of the support costs.

The other reason for a strong relationship with Japan is the economic dimension of the U.S.-Japan relationship. Many Americans perceive Japan as not just a competitive challenger, but as an economic threat. This is a deeply charged, emotional issue in the United States. Unfortunately, it is clouded by ignorance, a tendency to scapegoat Japan and other foreigners, and the high-

and multi-dimensional visibility of the Japanese economic presence in the United States.

The United States policy response should not be to try to contain Japan; that is impossible. Or to isolate Japan; that is unwise. Special rulings outside the GATT system for handling trade relations with Japan will not be in the U.S. national interest.

That does not mean we should do nothing. Of course, we should press for further opening of Japanese markets and for the harmonization of institutional differences.

More importantly, we have to work to integrate Japan into the world leadership roles, together with the United States and Western European nations.

However, most of America's economic problems are not of Japanese making but of our own, and only we can solve them. A more productive, competitive and efficient American economy is the way to improve our relative economic power, vis-a-vis Japan, and indeed the world.

Let me amplify my prepared statement on two matters of central relevance to these hearings. First, regarding the nature and extent of Japan's expanding presence in the Asia-Pacific region, there are two key points. One, Japan's presence is overwhelmingly economic, not political, military, cultural or ideological. Two, it is based on the highly decentralized trade and investment activities of Japanese businessmen competing with each other and with other multinational corporations as well as local businesses. There is no government conspiracy, nor one of a government-business elite.

A main objective of Japanese foreign policy in the region and globally is to obtain the status and respect which the Japanese feel is their due, given their economic success and progress. While there are always people in Japan, as there are in the United States and elsewhere, who will express different views, the political goals of the Japanese Government are modest, and their policy is cautious, incremental, and not very imaginative. On the whole, this is constructive for the region and for U.S.-Japan relations.

Certainly Japanese policymakers do not want to dominate the Asia-Pacific and make it their exclusive domain. Rather, they want to cooperate with others in the region and to maintain good relations with them. Even more important, Japanese leaders want good relations with the United States.

Alliance with the United States—political, economic and business—continues to be the dominant aim of Japanese Government and business policy, despite increasing unhappiness with what the Japanese perceive to be unfair American criticism; concern that the U.S. does not get its domestic economic act together; and an increasing arrogance among some Japanese bureaucrats and businessmen that they can manage their affairs better than the United States does.

Japanese leaders do not evidence any vision of their role in the world order. This is true in both the Asia-Pacific and global context. But Japan can be pushed by a U.S. anti-Japan and pro-Western Hemisphere policy into furthering an Asia-Pacific regional bloc under its leadership. This could happen if it feels jettisoned by the United States and senses the need to create its own regional group in response.

This is the basic danger facing our policy toward Japan and the Pacific region. It is what U.S. policy must work to avoid.

This brings me to U.S. Government policy toward Japan and the region. While the basic construct of U.S. policy toward Japan and the other Asia-Pacific economies is sound, one gets the sense that American management of the policies in these relationships is drifting; that they are given low priority relative to our other U.S. national interests; and that the attention span of our leaders is low, and that our attitudes are not particularly good.

The United States needs to raise the quality of its policy relationship with Japan, and to focus on mutual objectives and on ways to achieve them in developing the architecture of the new world order. We need to reaffirm the U.S.-Japan alliance in all its dimensions—economic, political, military, ideological—while helping Japanese leaders to find a constructive and appropriate regional and world role for Japan.

APEC—a 15-member government minister level organization in which the United States plays a leadership role—must be strengthened gradually, over time, in well-coordinated steps with Japan and other members. APEC offers a very constructive approach to Pacific regionalism. It champions open regionalism rather than closed. It provides a superior way to harness regional statements instead of Prime Minister Mahathir's EAEC proposal, or other such narrowly defined regional blocs.

The time has come for the United States to end its economic embargo of Vietnam. U.S. policy lags far beyond that of Japan and the ASEAN neighbors. This is one area where Japan may take unilateral leadership, to the detriment of U.S. business interests.

Let me end by endorsing the Tripartite Pacific Economic Cooperation Council—PECC—and the U.S. Government's role in it through the U.S. National Committee on Pacific Economic Cooperation. This has been an increasingly effective organization for academic and business inputs into the analysis of a number of Pacific-basin regional, economic policy issues. PECC works through task forces, development of human networks across the region, and inputs into APEC itself.

The ninth general meeting of PECC will be held in San Francisco on September 23-25—the first time it has been hosted by the United States. I hope representatives from the Joint Economic Committee will participate.

Also, particularly in terms of the interest of this Subcommittee, I bring to your attention the holding in Washington, prior to PECC 9, the 20th Pacific trade and development conference on the theme—the Pacific in the world economy. This conference brings together distinguished policy-oriented economists from throughout the Pacific basin.

It is being held September 10-12, 1992, and is hosted by the Institute of International Economics here in Washington. Your representatives will certainly be welcome there as well.

Thank you.

[The prepared statement of Mr. Patrick follows:]

**PREPARED STATEMENT OF HUGH PATRICK**

I am happy to be here with you to share my thoughts on the need to create a new architecture for the international economic system, and on some of the key structural issues.

**The "Old" International Economic Order**

The basic structure of the international economic system crafted after World War II worked very well for the problems the world then faced. But it has become outmoded due to its very success, not its failure. After World War II, conceptually we divided the globe into three worlds based on level of development and market versus planned economic systems:

- the First World of the old advanced industrial nations, notably the US and Western Europe -- the rules-setter and system designer;

- the Second World of centrally planned communist nations -- isolated from the so-called global economic system for ideological, cold war reasons as well as the contradiction between state planning and competitive market systems; and
- the Third World of poor, less developed economies, many states newly emerging from colonialism.

The Third World countries were rather paternalistically given special treatment and exemption from trade and foreign exchange control rules of the First World game.

I don't need to discuss the profound changes that have taken place over the last 35 years, in the economic sphere nowhere more profoundly than in the Asia-Pacific region where, by and large, economic performance has been driven by private, decentralized business decisions -- though in many environments helped by supportive government policy.

All too often we take markets and their efficient operation for granted until we see the collapse of the planned economies of Eastern Europe and the USSR, and the contradictions between the state and local enterprise systems within China.

International trade markets have worked so well because of the global system of open multilateral trade based on GATT, its rules, and its success in reducing the most important tariffs and quotas on manufactured goods, though now leaving exposed the remaining

deficiencies of the system -- namely, trade barriers in agriculture, services, and textiles, much less problems of ensuring intellectual property rights.

Add to this, of course, the profound and in some respects frightening as well as exhilarating implications of the ending of the cold war and the collapse of communism in Eastern Europe and what used to be the Soviet Union.

Thus, today when I use the phrase "One World, Two Worlds or Three", it is in a different world frame of reference. We face a different mix of problems -- some old, some new -- and we need to create a new architecture for the international system.

#### The New International Economic Order

The scenarios of alternative world systems today have as their primary architectural units world regions -- not level of development or type of economic system, which were the keystones of the post-World War II system.

The key issue we face in our new international economic order is whether we will:

(a) maintain, strengthen, and expand the membership in a multilateral, global system of open markets and economic transactions symbolized, all too weakly, by GATT and perhaps more strongly by the Euro-currency, Hong Kong, Singapore, and other international capital markets, or

(b) break down into a discriminatory system of regional trading and currency blocs which raise substantial barriers against outsiders, non-members.

Most fundamentally, such regionalist trends invoke either two worlds, Europe on the one hand, and the rest of the world, notably the Western Hemisphere, led by the U.S. and the Asian Pacific; or three worlds of blocs discriminating against each other: Europe; the Western Hemisphere, led by the U.S.; and the Asia-Pacific region, led -- though less strongly -- by Japan.

It is profoundly clear that in terms of our overarching economic and political interests, one world is better than two, and two is better than three. Market economics is a win-win game, not a zero-sum game.

However, as we all know, there is a real danger that we will move backward rather than forward.

Essentially the rules-makers -- the main architects -- of the new system are the European Community, the United States, and Japan. Each has its own narrownesses, parochialisms, and short-term domestic political objectives which have the potential to sabotage the creation of a new, global economic order, as the difficult Uruguay Round negotiations well demonstrate.

I might note parenthetically there are big differences between an economic region, where geographic and economic complementarities create more intense relations with each other as exemplified by the Asia-Pacific region; and an economic bloc, which is based on government arrangements to give preferences to each other in economic transactions, and indirectly or directly to discriminate against non-members, as exemplified by the European Community.

The basic issue is whether such an economic bloc is beneficial or pernicious -- whether it reduces external as well as internal barriers and expands trade, or instead raises external barriers. The European Community is beneficial in manufacturing trade, pernicious in agriculture, and the story on foreign direct investment is mixed but beneficial on net balance.

The danger we face is of pernicious blocs. The most dangerous is the possibility of a three-world situation in which the U.S. retreats to the Western Hemisphere, though I do not think that will occur. The U.S. has too much to lose from raising major barriers in its trade with Japan and the other Asia-Pacific economies.

So too does the Asia-Pacific region. I don't have to tell you of the vital importance of the U.S. as both a market and player in the Pacific Basin region and even more importantly as the leader, the first among equals, in pressing to maintain and strengthen the global system -- albeit with a certain amount of protectionist backsliding or aggressively



unilateral pressure on other countries to open their markets under threat of retaliation.

Indeed, the U.S. unilateral actions of recent years make all the more important the revamping and strengthening of a GATT-type organization.

### The Role of the United States

Let me say a few words about the United States.

I know it's popular to talk of the United States as being in decline, as no longer having the power it once did. Power is a relative concept of winners and losers, while economic well-being is essentially a positive sum concept. Certainly the U.S. no longer has the power it once did. Part of that is desirable and part of it is bad, mainly because it is a reflection of American unwillingness to address adequately its very real domestic problems, economic and social.

But the issue is more complex.

The United States emerged from World War II with a degree of economic power that, in global and even U.S. perspective, was unnatural, unsustainable, and not in long-run U.S. interests. Indeed, U.S. foreign policy was designed to reconstruct Europe and Japan and to encourage the rapid economic development of the Third World. And it succeeded. The implication, of course, was that the U.S. share of world GNP would decrease as other

economies performed even better than the United States. In reality, over the past 35 years the world and the U.S. have prospered; absolute improvement has been exceptional, even as the relative position of the U.S. economy has declined. This has been healthy. Better for the U.S. to have rich trading partners than poor.

In my view, the U.S. has moved from its historically temporary phase as economic hegemon -- with all its pluses and minuses -- to the more natural position of first among equals. While this causes lots of psychological problems, both for Americans and for others living off U.S. benevolent-patron patterns of thinking and behavior, in the long run it is healthier all around.

With some redistribution of economic power has gone redistribution in political power. On the other hand, the U.S. remains the supreme military power. Ideologically, communism as a value system has imploded upon itself; however democracy, freedom, and civil and human rights have yet to win the day in what is still a world of many authoritarian states. Nonetheless, the U.S. continues to serve as a democratic model for many in Asia and elsewhere.

While U.S. economic decline in any absolute sense certainly is not inevitable, I am concerned about the U.S. political inability to tackle its fundamental economic problems. They are real, they are domestic, and there are no quick fixes.

- The U.S. must raise its saving rate, both governmental and private.
- While university education is outstanding, we must improve basic education and vocational training. We need to produce computer programmers, as well as training up steel workers, and auto workers, in new technologies and ways of managing and handling production.
- American firms have become more competitive and more export oriented, but they have considerably more to accomplish.
- We need to reduce the de facto trade barriers we have raised over the past decade -- textile quotas, steel, auto, machine tool quotas, and the like.

But the U.S. does have a lot in its favor. I won't recite a litany of U.S. strengths. Let me simply note that:

First, a technological innovation is the key to future economic growth. We are in the midst of the microelectronic revolution, perhaps as profound as the steam engine, or electricity. Moreover, there are new revolutions ahead, perhaps equally profound: biotech and genetic engineering, and new forms of harnessing energy, in addition to composite materials and other innovations.

Second, the U.S. savings rate, now at an all-time low, will increase for demographic reasons, if no other. All workers save. But younger families spend even more, for housing, furniture, children's education. As the baby boom generation becomes older, they will inevitably not spend as much as they have in recent years. This is a major demographic transition we have not yet adequately incorporated into our analysis of saving behavior.

Third, while the share of the U.S. economy in world production has decreased, the share of U.S. multinational corporations in world production has not decreased at all. It simply has shifted its locale in response to changing market and cost conditions. For better or worse, multinationals – U.S., Japanese, other Asian, and European – will be the carriers of economic progress into the 21st century.

Some incorrectly see the United States as in economic retreat from the Asia-Pacific region. In reality, in an absolute sense the American economic and business presence is increasing. It is only in the relative sense that the U.S. presence is less overwhelming than before. Indeed, I take as inevitable a rising absolute and relative Japanese business and economic presence in the region, as it continues to become more and more open in practice, and as its economic performance continues to be very good relative to the other OECD countries. But the story is complicated, and made better, by increasing trade and foreign direct investment among the other economies of the region, such as Taiwan and South Korea, much less Hong Kong.

Let me note some basic facts.

Between 1985 and 1990, U.S. exports grew faster than its GNP, and they grew particularly rapidly to the Western Pacific economies.

Between 1970 and 1990, the share of U.S. exports to the APEC member economies rose from 40.6% to 52.8%, and the import share was higher but increased less, from 52.0% to 58.2%.

Between 1985-1990, U.S. business foreign direct investment in Japan and the Asia-Pacific increased by \$29 billion to \$62 billion, not large relative to U.S. total FDI, but a slightly rising share.

Perhaps more important, more U.S. multinationals are active in the Pacific Rim, and their Pacific share of total sales is rising.

The U.S. political and security commitment to the Asia-Pacific region is strong and will remain so. Indeed that was the main purpose and message of President Bush's recent trip through the region, even though the strength of those signals were weakened by his lip-service to American domestic politics in an election year ("jobs, jobs, jobs").

Asia-Pacific regionalism is now seen by American policy makers as congruent with

and supportive of a new global international economic order.

The U.S. government at the fundamental systemic level is committed to the revamping and building of an open, multilateral, relatively free system of flows of trade in goods and services, finance, and business direct investment. Ideally this will be under a set of rules commonly agreed upon through GATT-type international negotiation, and including countries and economies which share an overarching vision of and commitment to the role of markets and of competitiveness.

I admit, but certainly do not condone, the domestic political pressures which constrain the U.S. from living up fully to this basic goal.

- the ability of producer interest groups to obtain protection at the expense of consumers;
- Reagan's budget policy, perhaps the most important economic policy mistake in decades, especially the final round of tax cuts, which led to the government eating up not only private savings but having to borrow from abroad;
- the U.S. huge, though now declining, trade deficit, which in turn brought on the 1988 Trade Act and Super 301; and

- perhaps worst of all, a growing sense that the U.S., the richest country in the world, is a poor country which cannot afford to solve its economic problems.

The U.S. problem is not one of lack of resources, but lack of political will.

Fortunately successive Presidents, Republican and Democratic, have been able to transform domestic political pressure for protection into pressure to open foreign markets, through GATT, and especially through the Uruguay Round. But unfortunately the U.S. has taken an aggressively unilateralist approach in insisting trading partners open their markets more, and adhere more to internationally accepted rules, as with intellectual property rights and the ongoing negotiations with China as well as other Asian countries.

This American bullying is one reaction to the inability of GATT to solve such problems. It is a major reason why the world needs a strengthened GATT instead of American aggressive unilateralism.

In its longstanding commitment to a global multilateral system, up until 1985 the U.S. government tended to reject Asia-Pacific regionalism as undermining the global system. In 1985, President Reagan and Secretary of State Schultz made a dramatic policy change, supporting the private tripartite Pacific Economic Cooperation Conferences (PECC) and later the formation of APEC, the ministerial level government organization for Asia-Pacific Economic Cooperation.

The U.S. recognizes that this commitment to the Asia-Pacific region is supportive of the global system, offering a mechanism whereby liberalizing regional efforts can be a practical road toward global liberalization without being the genesis of a restrictive regional bloc.

APEC is also a tactical instrument, a counter threat to the European Community should it become too inward looking and discriminatory, a fallback if the European Community does become a pernicious bloc, as well as a counterbalance to Asian regionalism as epitomized by the EAEG proposal, now the EAEC.

I do not regard the proposed three nation North America Free Trade Area involving the U.S., Canada, and Mexico as inherently inimical to Asia-Pacific interests. Given U.S. porous borders, and extensive economic relations with Mexico, it is natural. What would be inimical and against Asian-Pacific and indeed American interests would be for the U.S. to expand the free trade area to all of Latin America without at the same time including the Asian-Pacific economies. This is the three world scenario -- the worst of all -- and ultimately unlikely, I believe.

### Three Problems for the New System

A great deal depends on how the three major players behave. Let me briefly raise three problems the new system faces.



One is the successful conclusion of the Uruguay Round. The European Community can prevent that. Even if a success, it will leave many problems yet to be resolved. And if it fails, the drift toward regionalism will become a movement, and regions may well become discriminatory blocs.

A second, and in my judgment the deepest, threat to the new international economic order, and indeed to the stability of Asia, is the possible breakdown of the U.S.-Japan alliance through its mismanagement, especially by the U.S. but also by Japan.

The U.S.-Japan alliance in the post cold war era continues to be essential, but for new reasons. This bilateral alliance is essential economically in order to determine how to manage constructively and cooperatively the great competitive economic challenge of Japanese business, and how to create the conditions whereby Japan can play a mature constructive leadership role in world affairs.

The danger on the American side lies in our paranoia over the Japanese challenge, our unwillingness to recognize that our problems are of our own creation and require our own solution; and in the temptation of some to engage not simply in Japan-bashing but to suggest that somehow the U.S. might contain or isolate Japan. It is impossible to contain Japan, and it would be very unwise to attempt to isolate it rather than to integrate into the leadership system.

The problem on the Japanese side is that it remains a parochial, insular, outsider-unfriendly society, even when the outsiders are other Japanese. The central Japanese problem as the world's second largest and most vibrant economy, is that it has no vision for the international economic order, no vision of Japan's role in that order, and no strategic sense of what Japan must do to build the new structures that are required. The earlier low-risk, bystander, free rider's game is becoming increasingly expensive, and indeed perhaps can no longer be played at any price. Symbolic gifts and bandaids will no longer suffice; fundamental reforms in policy are essential.

The United States and Japan need to create a new, balanced, and mature relationship. I suspect it may get worse before American leaders come to their senses, and start to improve the relationship.

The United States-Japan alliance is even more important for Asian stability. I don't need to raise the spectre of a Japan bereft of the United States military umbrella, seeking its own military strength.

What the United States has in its favor in Asia is that Japan has no ideology and no message to export; and that its military potentialities are feared, even by the Japanese themselves.

Finally, one of the most difficult challenges facing the new international order will be

to deal with the differences among economies and nations in economic institutions, behavior, and values in an increasingly intertwined, and indeed interpenetrated, set of economic relationships.

It used to be that the exchange was the standard adjuster for national differences in market-based economies. Harmonization is a current buzzword, and indeed market and government pressures will bring about greater congruence and harmonization of institutional arrangements. However, the world certainly will not become homogeneous. Many national differences will persist, and validly so in reflecting differences in values, types of democratic political systems, as well as the realities of the historical process of institutional development. As the United States-Japan SII talks and the European Community 1992 talks demonstrate, many institutional differences will be raised (and even more so as the major barriers to trade are reduced); and while some will be harmonized, others will be accepted.

Pressures for harmonization must deal with two fundamental problems. One is how does the market economy world deal with the transforming socialist economies, most notably China which after all has not collapsed, but also the former Soviet Union states and the East European nations. Second, how do we deal with differences within the general framework of capitalism. We now have three models of capitalism: Anglo-American, continental European, and Asian. The great challenge will be to successfully incorporate all three into an effective one world system. It is on this challenging note that I end.

REPRESENTATIVE HAMILTON. Thank you, Mr. Patrick.

We will begin with questions. Let me begin with a general question. As you listened to the other witnesses this morning, did you find anything you disagreed with sharply?

MR. PATRICK. We are all thinking along the same lines.

One area where I worry a bit would be to start developing negotiations on a free-trade area only with ASEAN at this time. I certainly support the other steps proposed, but I am not sure that it makes sense, in a broader strategic interest, to start only with ASEAN. We need to look at it in a broader construct that would include Korea and Japan, and probably Australia and New Zealand, and to think whether there is a potential Pacific-basin free-trade area that we might use as a regional vehicle for true global multilateralization.

REPRESENTATIVE HAMILTON. How is Japan looking upon, for example, the NAFTA negotiations going on now?

MR. PATRICK. They are rather nervous about them.

REPRESENTATIVE HAMILTON. Do they think they are being shut out?

MR. PATRICK. They fear the local content restrictions, which will be imposed and applied, will make it very difficult for them to continue to export and invest as they have.

REPRESENTATIVE HAMILTON. They fear a fortress America?

MR. PATRICK. Yes, I think most sophisticated policymakers think we won't go that far, but that is a big anxiety. That is why I stress the dangers of this Western isolationism.

MR. DRISCOLL. I think there is a big concern, particularly among the countries of Southeast Asia. There is a clear concern that NAFTA will lead to two negative conclusions for their relations with the United States. One is that it will be a diversion of trade imports into the United States and toward Mexico and away from the Pacific region.

Second, there is a fear that NAFTA will erect barriers that will not be in the interests of the Asian countries, in terms of their trade relations with the United States.

Even given all of the assurances that have come from the Administration and from those who are involved in the negotiations, still there is an underlying fear that the United States is retreating into the Western Hemisphere. Prime Minister Mahathir's proposal for the East Asian Economic Caucus stemmed initially from the failure of the negotiations on the GATT round in Brussels, and a sense that the world economy is, in fact, splitting into at least two or three regions; a sense that Europe is becoming a regional trade bloc that is erecting external barriers, and a sense that maybe the United States is drifting in that direction.

REPRESENTATIVE HAMILTON. Does Japan feel that Europe is trying to shut them out?

MR. DRISCOLL. I think so. Absolutely. I think you can look at some of the European trade policies—

REPRESENTATIVE HAMILTON. Do you think Europe is trying to shut them out?

MR. DRISCOLL. I think some of the European trade policies have had that effect.

REPRESENTATIVE HAMILTON. You have that same impression, Dr. Patrick?

MR. PATRICK. Certainly. I think that the fundamental choice for all of us is, on net balance, do we end up becoming more open or less open? And there are forces in Europe that are restrictive toward Japan.

On the other hand, we have to understand that Japanese exports and investments to Europe have been expanding and will probably continue to expand.

Over time, one always has a problem of knowing what is happening at the margin versus what is happening to the structure. I guess, we are all paid to worry about the dire consequences of things that might go wrong in order to help encourage our policymakers to make the right policy so that things will go well. So we tend to hear negativism.

I am fairly optimistic about the long run. I don't think we are going to breakdown into competing world trading blocs. I don't think that the Europeans are going to become strongly exclusionary against Japan. But they certainly have that feeling and tendency much more than Americans do, for instance, and so it is a problem.

MR. CRONIN. There is a certain irony in this view of NAFTA, because on the one hand, we have been talking about the lack of a concerted U.S. strategy on trade and economic issues; on the other hand, there is a perception abroad, particularly in Japan and in other Asian countries, that there is some kind of strategic objective behind NAFTA to give advantages to U.S. producers, both in the U.S. and global markets, that would be denied to other countries. And I think that this is symptomatic of a tendency in Japan and other Asian countries to perhaps worry excessively about every twist and turn of U.S. policy.

We are very deeply integrated with the Japanese and other Asian economies. There is lots of cross-company, cross-industry integration that probably is going to continue. But, if you look at their investment strategy, already it is based, in large part, on the perceived need to avoid U.S. protectionism and to get behind protectionist barriers—get into the U.S. market as quasi-domestic companies. NAFTA raises the prospect that that strategy may be frustrated by more rigid local content rules, for instance.

REPRESENTATIVE HAMILTON. I want to get your general sense of the trend. If I understood what you said earlier on, you are saying that the United States is really doing pretty well in this region. In terms of our total economic presence, it is moving up rather than down. And if you look at that time from that perspective, fine. But Japan is doing a lot better than we are. Their trends, relative to the United States are better, more impressive now.

So where do you end up? I mean, right now, is it a situation where the Japanese, if present trends continue, are going to beat us badly in Asia in a few years, and we are going to be slowly finding ourselves at a substantial disadvantage, crowded out, if you will, of the Asian markets? How do you feel overall? Is this something that policymakers should be deeply concerned about, angry about, or passive, no big deal? How does the policy person assess these trends?

MR. CRONIN. If I could add something that Mr. Driscoll talked about, he talked about the advantages that the United States enjoys in Asia, and I think, in part, some of those can be overstated. For instance, there is such a much broader Japanese presence and the Japanese operate in such a different way, particularly by using joint venture companies, that they build a much broader

base of interaction with Asian businesses, business leaders, and whatnot. So this is what gives them advantages.

Mr. Driscoll also mentioned that the U.S. exports were too narrowly focused, and the industries which we operate, or the sectors, are too narrow. I think that is quite correct. So I would say yes, we are doing well, but yes, we are too narrowly based, which is risky. And in addition, we are probably over-estimating some of what we see as some of our advantages.

For instance, we educate over 200,000 Asians in this country every year. And most of those are in engineering and management fields— business-related fields. A lot of them either contribute to our economy here, or they go back to their own countries and become business leaders, or policymakers, or whatever. But the Japanese are working at the middle and lower end of the scale, because their operations are so much more extensive, and because they are so much more involved in joint ventures.

REPRESENTATIVE HAMILTON. So, Dr. Cronin, where do you come out?

MR. CRONIN. I come out in saying that we need to get our act together, that we have some natural advantages—

REPRESENTATIVE HAMILTON. You come out that if serious trends continue, we are going to get our pants beat off in Asia; is that where you come out?

MR. CRONIN. That is what it looks like on the ground out there, even though the numbers don't look quite so bad.

REPRESENTATIVE HAMILTON. The trends are deeply disturbing to you?

MR. CRONIN. To me, yes.

REPRESENTATIVE HAMILTON. Is that true of you, Mr. Driscoll?

MR. DRISCOLL. First of all, the United States, right now, is simply running in place. We are barely keeping up with the growth of trade in the Asia-Pacific region.

The growth of U.S. exports to the region is parallel to the growth of ASEAN's imports, the region's imports. We are not gaining in market share.

REPRESENTATIVE HAMILTON. Japan is gaining in market share.

MR. DRISCOLL. Yes, as are other countries—Korea, Hong Kong—over the United States.

I agree with Mr. Cronin that the result, in terms of the position of the United States in East Asia and the Pacific, is as much due to Japanese action as it is due to U.S. inaction. That is why I concentrated in my remarks on some ideas that might put us into a forward-looking strategy.

But I have to say that I am concerned that if we simply sit back and don't start to pay more attention to the region and to what it is we need to do to be more competitive in the region, yes, we are going to get our pants beat off.

REPRESENTATIVE HAMILTON. So the current trends are deeply disturbing to you. Also to you, Dr. Patrick?

MR. PATRICK. Less deeply disturbing, if you push me.

REPRESENTATIVE HAMILTON. Than the other two?

MR. PATRICK. Yes, but I am not happy about it. Let me put it this way. I see our policies toward particular regions in the world, our economic and commercial policies, as a subcomponent of a global policy to improve American competitiveness. And as we improve our competitiveness, as we export more,

as we become more competitive, as we import less as a result of that, as we invest more abroad, we will improve our positions everywhere, including the Pacific basin.

So, while I am sure that on the one hand, there are a number of very useful, specific things—such as the bilateral double taxation treaties—that should be negotiated; but on the other hand, I am not sure that we need an Asia-specific focused regional economic policy. What we need is, as part of a global policy, that which makes us more competitive everywhere.

I would like to see us provide incentives that encourage business to go abroad more and to help them do that, and in understanding that they have to meet the competition in world markets.

I would point out, it is not just Japanese competition in Southeast Asia. It is European competition, it is indigenous competition, and increasingly, Korean and Taiwan competition. Firms are going to move into a rapidly growing environment, but also a competitive environment.

REPRESENTATIVE HAMILTON. If present trends continue, you think the present trends are unfavorable to the United States, with regard to our economic—

MR. PATRICK. As Mr. Driscoll says, we are not losing ground, but we are not gaining ground, and we lost ground earlier. So that means, relative to Japan and others, we are going to be less advantageous. I don't think we are going to have our pants beaten off.

REPRESENTATIVE HAMILTON. Why are we not losing ground if we are declining relative, as you say, to more rapidly growing Japan? If Japan is more rapidly growing—

MR. PATRICK. Japan is gaining ground, we are not losing ground. If you look at the share of exports, as was pointed out, our share in ASEAN and in Asian imports has remained somewhat constant over the last five years. Part of that was due to the success of the yen appreciation and dollar depreciation policy.

REPRESENTATIVE HAMILTON. I am going to turn to Congressman Scheuer now, but I want to go next to the U.S. policy focus, and pick up some of the constructive comments that each of you made with respect to that. But before I do, I will go to Congressman Scheuer.

REPRESENTATIVE SCHEUER. Let me say how much I appreciated and enjoyed the testimony that all three of you have given. It has been a very stimulating hearing.

You have described the situation in Asia very well. In effect, Japan has moved the goal posts. We have been doing fairly well, but they have been doing better.

You can look at it in the history of the repairs that have to be made on Japanese and American cars. Ten years ago, we had a terrible record—American cars—in the number of times they had to be returned to the factory for repairs. It was dreadful. Maybe six or seven times in the first year. Now that is down to two or three times. But in the meantime, the Japanese have moved the goal post, and they have gone down from two or three times to a fraction of one time, on the average. So we have to run like hell to stay even. And if we run just moderately fast, we keep falling behind.

The problem is, as you pointed out this morning, it is largely the inadequate rate of savings in America that cripples our ability to make adequate investments in research demonstration projects and new plant and equipment, and so forth. We don't have the capital to do everything we would like.

To penetrate the European market—360 million people—it will be the largest single market on earth, plus a new market in this Hemisphere, plus the ASEAN market. Do you feel we ought to have an industrial policy that directs investment, encourages investment, puts a premium on investment, to the ASEAN region, or should we more or less treat the newly emerging economic regions of the world—Europe, Asia, and this continent—the same and let the market make those choices as to where we invest our capital?

MR. DRISCOLL. Since you focused on the ASEAN countries, let me attempt an answer. I don't think we need an industrial policy to direct companies toward one region of the world over another. And indeed, in the overall question of U.S. competitiveness in Asia or elsewhere in the world, it will vary from industry to industry. We will do very well, for example, in certain types of industries. We do very well in the electronics industry. We do very, very well in oil and gas, and oil and gas services, and that related area. We are not competitive in a lot of consumer products. We are competitive in services, and have a majority market share throughout the region.

REPRESENTATIVE SCHEUER. You are talking about insurance banking?

MR. DRISCOLL. YES. Those investments were made by companies who recognized that a profit could be made and that they would be able to make a fair return to their shareholders by investing in these particular countries.

I think there is a need for the United States, though, to not just simply say that world is there, go invest. I think there is a need for the U.S. Government particularly to highlight what some of these opportunities are and how to take advantage of them.

REPRESENTATIVE HAMILTON. Excuse me for interrupting, Mr. Driscoll. I am just advising Congressman Scheuer that I will go ahead and vote and return as quickly as I can.

REPRESENTATIVE SCHEUER. [Presiding.] Please proceed.

MR. DRISCOLL. Further, we need to move toward free-trade agreements and bilateral double taxation treaties with the Asian Pacific region. These agreements offer a means to counteract a persistent perception in Asia that the United States is withdrawing from the region. Simply reiterating the importance of Asia, simply just talking about it, does not have the same impact of proactive steps. The United States must, for our competitive interests, move toward counteracting the perception that we are withdrawing from the region.

We have placed so much emphasis here in the United States on Eastern Europe and the Newly Independent States. I think we have done that to the detriment of our interests in the Asia-Pacific region. We need more balance.

MR. CRONIN. One of the things that we didn't talk about today, which we should mention, is that if you look at U.S. trade performance in Asia, it actually looks pretty good, right now. Our exports are expanding faster than our imports. It even looks very good with Japan, at least until the most recent year. But this is largely a function of currency changes in valuation. We were getting killed in the late 1970s and early 1980s by the high dollar and the



huge budget deficits we were running, which were causing us to soak up more imports than we would otherwise. We started gaining ground after 1985 when the dollar fell. So, in the last few years, we have been doing very well.

But the problem to worry about is that we are not getting richer by operating with a cheaper dollar. In other words, there are different ways one can be competitive internationally, and one way is to have lower wage rates, which in fact we have, relative to a lot of competitors now, or to have a cheaper currency. But that doesn't necessarily make the country wealthier, or make our people wealthier.

REPRESENTATIVE SCHEUER. In comparison, which countries do we have lower wage rates?

MR. CRONIN. In comparison with Japan in certain industries, and certainly in comparison with some of the European countries, Germany is putting a BMW plant in South Carolina. The main reason is that Germans cannot afford to build a total German car in Germany anymore because labor costs are so high, and still be competitive. U.S. wages are lower, which means that we may be losing ground in living standards. We can still have higher wages and remain competitive, provided other factors like capital intensity and other input costs are lower.

So all I am saying is that the numbers look good, but you have to look at the base, where we started from, to judge how we are doing right now, and also what are our assets. I mean, what is our leverage into the future? And again, I would go back to the point that Mr. Driscoll made about the narrowness of U.S. advantages in Asia and the narrowness of our export base.

As for industrial policy in general, this is a very controversial issue. My own opinion is that it is hard for an economy like the United States to operate the way the Japanese economy or the German economy operates. We don't have the kind of bureaucracies that they have that make policy decisions. We don't have the ability to ram policy decisions, like tax increases or other changes, down the throats of the public or even of political leaders. It is harder for us to do that.

I think we would do better to emphasize the fundamentals, the things that historically have made the United States strong, such as our diversity, and to get our macroeconomic house in order. If we did that, I think we have certain natural advantages that would put us in good stead in Asia. We don't have to emulate exactly our competitors.

MR. PATRICK. I might also respond on the industrial policy issue. I agree with my colleagues here, the United States is not very skilled in trying to run a comprehensive industrial policy strategy, in terms of our ability to implement it, and that would be true whether we are talking about specific sectors, or whether we are talking about world regions. That doesn't mean we should do nothing.

I think we need to have what I have sometimes termed a macro-industrial policy; that is to say, improve the conditions under which we produce in our country by better R&D incentives, more incentives for education, the things that are fundamentals, which you referred to. Once we have those incentives in place and are improving the human capital skills, I think the market works better than the government bureaucrats in sorting out where they should go.

REPRESENTATIVE SCHEUER. You mentioned K through 12. There have been recommendations that we expand that both ways, that we go from K to K minus two, institutionalize a Head Start program for everybody.

In 1948, President Truman had a higher education commission report that recommended a two-year extension of education entitlements, from K-12 to K-14. If you look at the last 45 years at the expansion of demands for skills—computer skills, literacy skills, the ability to process information—that we demand of our work force, you might say that putting in an inflation corrector, an inflation of the demands made on our labor force, it would at least be a four-year postsecondary entitlement. So then you would be talking about K minus two—K minus two, to 12 plus four.

MR. PATRICK. As a representative of an interest group known as a university, I would certainly support that. As a citizen, I would say that probably the K minus two will have a greater return over the longer run, even though the university level is very important. Given the heterogeneity of our society and the differences with which children enter school, in terms of what they bring from their own heritages, we need to concentrate in that area.

If we have very solid preschool stimulus of kids, as Head Start has done so effectively, I think it will carry all the way through.

REPRESENTATIVE SCHEUER. The amazing thing is that we treat our successes the way we treat our failures. Head Start has been a spectacularly successful program, and we have done cost-benefit studies that indicate that for every dollar you put into Head Start, the returns, not even indirect, just the direct returns are \$6 or \$7. And if you look at problems avoided by kids bumping up against the criminal justice system and welfare and whatnot, it is off the chart.

In the Joint Economic Committee, we also did a cost effectiveness survey of the GI bill of rates—one of our brilliant young economists did that—and they indicated the same cost-benefit return, off the charts. And if you contemplate that it was really the way we got to that state of productiveness that catapulted us into the post-industrial age after World War II, the benefits of having a well educated work force are almost incalculable. Yet, we sit around on our butts ignoring the need to produce just on the basis of sheer competitiveness, let alone quality of life, the need for a drastic improvement in the skills and competitiveness of the American work force.

I am chairman of the Education and Health Subcommittee of the Joint Economic Committee, and I held a hearing on this subject a couple of years ago—a wonderful hearing on the question of what we needed to do in our country to produce an effective, educated, competitive work force—and one of our star witnesses was Governor Clinton of Arkansas. He gave a brilliant performance. I don't want to turn this into a political forum, but hopefully Governor Clinton will be in a position to do something about his terrific ideas on the subject.

Does anybody know how long we have to go? I am going to declare a recess until the Chair comes back, but I would like to ask you a question. The question is, what do we do about the extreme difficulty of penetrating the Japanese consumer market, which now is one of the great consumer markets in the world? We see them erecting barriers—formal barriers, informal barriers—we see the effect of customs, tradition, long-held practices, really defeating our efforts to penetrate that market—the efforts of our manufac-

turers—with new barriers arising as fast as we can bat down some of the old ones.

Is this a hopeless venture? Should we more or less give up and concentrate on penetrating markets in America, Canada, Mexico and so forth, and just assume that there is such a burden of history and tradition and custom in Japan that it is unlikely that no matter what we do, we are not going to achieve effective penetration of that market, and that the cost of trying, and of bearing in on it, has a hurtful effect on other goals that have with Japan as well?

I would be interested in having any or all of you respond. I am going to have to take off for this vote, but I will read your answers with great interest and pleasure in the record. Thank you very much.

I will have to adjourn this meeting at the call of the Chair. Chairman Hamilton will be back in a few moments.

MR. PATRICK. Do you want us to respond for the record?

REPRESENTATIVE SCHEUER. There is some question as to whether you can do it if there isn't a member present.

[Recess.]

REPRESENTATIVE HAMILTON. [Presiding.] Let's pick up with Congressman Scheuer's question. I don't know what the question is, so I don't know whether you will be answering it or not.

MR. CRONIN. The question basically was, is it hopeless to think about the U.S. doing better in the Japanese market, particularly in terms of consumer goods, etc., and how shall we deal with that issue? And my answer is fairly brief, and that is that we have been making progress in market opening, and we have been making progress in addressing some of the fundamental structural obstacles to U.S. exports to Japan.

U.S. exports are actually rising quite rapidly. In fact, there is a figure I have here. From 1987 to 1991, U.S. exports to Japan grew by 70 percent, and U.S. imports from Japan grew by 8.3 percent. The situation is changing again because the U.S. economy is possibly accelerating a little bit and the Japanese economy definitely is going into recession, and so their import picture is changing.

But the brief answer is that I think there is enormous disparity between U.S. investment in Japan and Japanese investment here. The best way to do business in the Japanese market is to invest there, to get behind what protectionist barriers exist, and to get into the networks that exist within the Japanese economy. We could do better as vendors of consumer goods in Japan if we were larger investors, and that is almost the same thing that we could say for any other Asian country, as well.

REPRESENTATIVE HAMILTON. Any other comment?

MR. PATRICK. I might add that on the whole, Japanese tariffs and other related government barriers to our exports of manufactured goods are very low, and the real problems are private barriers, distribution, sometimes problems of industry standards, and things of that sort. Our exports have responded to both market opening policies, which have been successful and as a result of greater efforts on the part of the United States, and the price competitiveness that the yen appreciation brought about.

In general, I would that say we have fewer barriers in Japanese consumer markets than we do in the industrial goods markets. And so I think the question, as it was posed, particularly about the inability to develop consumers' markets, is belied by the facts. You have to have good quality products and competitive prices, and then some sort of distribution mechanism to succeed.

We have lots of success stories: Pampers, a whole variety of food-related products, corn flakes, and so forth. Agriculture continues to be a place where official barriers are serious, and where we need to continue to push the potential opportunities for us.

The other thing I would point out is, a lot of American company exports to Japan are produced in other countries. That is to say, what does it mean to be an American company in a world of multinationals, and the share of American multinationals in the world continues to be very strong, but they have changed their sourcing from the United States to other countries as well. We see that in semiconductors, as well as other industries.

But the prospects are good for the Japanese market. It is not an easy market to crack, and it requires a good business strategy. So you have to have a commitment for a major investment over a long time period and a lot of persistence.

REPRESENTATIVE HAMILTON. Do you think it is a closed market?

MR. PATRICK. No.

REPRESENTATIVE HAMILTON. It is relatively open?

MR. PATRICK. Yes.

REPRESENTATIVE HAMILTON. And the reason we haven't done as well as we would like is because of the complexity of it, basically, because we haven't made the effort to understand it and to persevere?

MR. PATRICK. I think those are major reasons. It is not an outsider friendly market. The barriers are private-business barriers rather than government-official barriers.

REPRESENTATIVE HAMILTON. You talk at one point about American bullying—the process of putting pressure on Japan and other countries to get into their markets. What do you mean by that?

MR. PATRICK. Well, I think—

REPRESENTATIVE HAMILTON. That would strike most Americans as a very strange view, because they have a view, generally speaking, that the Japanese market is quite closed to the American business interest.

MR. PATRICK. I guess my general point is that from the viewpoint of the U.S. optimal trade strategy, I think Section 301 has been misused, and certainly Super 301 went too far because of its unilateral aggressive tendencies.

REPRESENTATIVE HAMILTON. The Japanese resented it?

MR. PATRICK. They did, and the Koreans resented it. I don't think you build strong relationships with that kind of behavior. It reflects our 1960s Cold War, arrogant mentality.

REPRESENTATIVE HAMILTON. Is it true that the U.S. market is more open to the Japanese than the Japanese is open to the Americans?

MR. PATRICK. In the broadest sense, I would say yes, in that we are an outsider friendly country. If you look at our import barriers against Japanese

goods, they are much more substantial than Japanese barriers against American goods, and we do it mostly through VERs and similar measures, not tariffs. We have so-called voluntary restraints that aren't voluntary at all.

REPRESENTATIVE HAMILTON. So, from a legal standpoint, the American market is more closed to the Japanese than the Japanese is closed to the American?

MR. CRONIN. I don't think you could say that. That would be very complicated.

MR. PATRICK. Yes, I don't want to make a legal argument, I am not a lawyer, and I would agree that it is a complicated—

REPRESENTATIVE HAMILTON. You seem to be drawing a distinction between the legal barriers and the custom, practice, and tradition barriers. I am just trying to get a sense of this.

Is it correct to say that the Japanese barriers are less than the custom barriers?

MR. CRONIN. They are apples and oranges, I guess. If you wanted to compare the United States and Japan, in terms of relative openness, you have to look at what drives the economic dynamics of each society and how—

REPRESENTATIVE HAMILTON. Sum it up for me. Give me a couple of sentences to sum it up for me.

MR. CRONIN. I can sum it up by example. If you go into the U.S. market to buy consumer goods, those goods have been obtained by wholesalers and retailers, who go all over the world to find the cheapest product to compete with their competitors. And so there are flannel shirts from China, electronics goods from Malaysia, etc.

The Japanese market doesn't work the same way. They don't scour the world for the cheapest foreign goods. So if you want to sell foreign goods there, you have to invest and get into that market because it is marching to a different beat than the U.S. market is. In that sense, we are more open.

Anybody can sell goods to the American market. All you have to do is contact the Sears representative and say I have cheaper shirts in Sri Lanka than Malaysia has, and you have the market. The Japanese market doesn't work the same way. If you want to sell there, you have to go there and beat down the door.

We do have a lot of legal restraints to imports here, but in the main, the U.S. market is more open than the Japanese market. It is more outsider friendly, as Professor Patrick said.

MR. PATRICK. We have to differentiate by sector. Clearly, Japanese agriculture is highly protective and restricted legally. In the services sector, Japanese legal barriers are substantial, though that is true for services around the world, including the United States, because services tend to be regulated industries.

In manufacturing, legally I would say that the United States is less open than Japan, but in terms of these other characteristics that you describe of openness, which have to do with practices and customs and ways of doing business, I would say that Japan, on the evidence, appears to be less open.

REPRESENTATIVE HAMILTON. Do you agree with all this, Mr. Driscoll?

MR. DRISCOLL. I would say, if you look strictly at the body of rules and regulations that are called the trade policy of the United States versus that

body of rules and regulations that are strictly limited to so-called trade policy of Japan, one could probably argue that the Japanese have lower tariffs and fewer restrictions.

But, I think, as you look at industry by industry and at the body of commercial law, there are significant barriers in both government and commercial practice.

REPRESENTATIVE HAMILTON. Should the United States continue negotiations with Japan to pressure them to open the markets up more? Is that a good policy for us?

MR. DRISCOLL. I argue that we should be doing it on a series of priority areas. I think the structural impediments initiative talks have been helpful.

Going back to my testimony, I think there are two issues here. One is, yes, and we should be pushing for them to open up their markets, we should be pushing for them to reduce barriers in a number of areas.

REPRESENTATIVE HAMILTON. Do you agree with that, Dr. Patrick?

MR. PATRICK. Yes, I do.

MR. DRISCOLL. At the same time, we have to make an effort to make sure American companies walk through the doors that we push open. For example, according to one of our trade negotiators, in the early 1970s, we negotiated with Japan to eliminate barriers to the opening of large retail stores and outlets in Japan. It was not until nearly 20 years later that we had an American company ready to walk through that door.

I think we have to sit down and set our priorities, and not simply push across the board, but push where American companies are ready to walk through the door once it is open.

REPRESENTATIVE HAMILTON. Your statement says that in several places, we have put too much emphasis on strategic interests and ought to emphasize the commercial much more—the economic interests. Now, of course, the United States foreign policy has a lot of interests, and we talk an awful lot about democracy. For example, we talk about human rights, we talk about the rule of law, and of course there are strategic and military considerations. Do you reject these other interests, or do you just feel that we haven't put enough emphasis on the economic side?

MR. DRISCOLL. I feel two things, Mr. Chairman. One is that we have not put enough emphasis on economic issues.

REPRESENTATIVE HAMILTON. You have a lot of countries in this region of the world that aren't exactly democratic.

MR. DRISCOLL. I agree, there are concerns that we have, from human rights to democratization, all of which are worthy and legitimate concerns, and certainly across the board are supported by American business.

My answer to your question would be twofold. First of all, we have just not put enough emphasis on the commercial side, on the economic interaction that we have with these countries. Second, I think we in the United States are too willing to sacrifice our economic interests to our other interests. We will cut off aid, or we will erect or reduce access to our market, for example, because of human rights policy, or we will enact barriers or retaliate because of a failure to act on intellectual property rights, other legitimate U.S. national interests.

I am not sure that we necessarily gain, in terms of improving the human rights situation in the country that we are dealing with, through that action. But I do believe that we in fact have a negative and deleterious effect on U.S. commercial interests by some of these actions.

We should not be sacrificing our commercial interests, our trade interests, our investment interests, our economic interests in these countries, on the basis of gaining in some other areas.

I would like to give one example. The United States announced and did retaliate against Thailand for their failure to enact a copyright law. We reduced their access to GSP in a number of product areas. That action did not result in Thailand changing its laws. American audio, video and print media received copyright protection because the United States signed the Bern Convention. Did we gain by that retaliation, or were there other related costs to business interests? I think we need to find balance.

REPRESENTATIVE HAMILTON. So we ought not to say to a country, if you don't release your political prisoners, we are not going to give you Most Favored Nation treaty?

MR. DRISCOLL. I would agree with that. I think we should find other means of influencing the actions of that country.

REPRESENTATIVE HAMILTON. Do you agree with that, Dr. Patrick?

MR. PATRICK. I don't think you can make a very general statement here. We are talking about tradeoffs between different desired objectives and the costs of not achieving one or another of them. And I agree with Mr. Driscoll that quite often we have made tradeoffs in ways that do not give sufficient weight to our economic and commercial interests.

On the specific issue of Most Favored Nation treatment—we are talking about China, I think that we are really trying to apply a draconian instrument toward an issue which is very difficult and complex. And I would have preferred, frankly, some kinds of threats of trade sanctions, but much more focused and limited rather than entire elimination of Most Favored Nation treaty.

REPRESENTATIVE HAMILTON. But all of you share the general view that, as Mr. Driscoll said, we have not put sufficient emphasis on economic interests as opposed to the other interests; is that right, you have that general sense?

MR. PATRICK. Personally, I would adjust the tradeoff between economic and national security interests, especially in light of our new conditions. I don't know to what extent we really have thought a lot about human rights or democratic interests, but our policies still have an inertia from the legacy of the last 30 years of security dominance in our thinking, and that needs to change, but it is hard to do.

MR. CRONIN. I think it is hard to keep in perspective that we are dealing with a series of interrelated issues—economic, security and political—and we can become complacent, at any given point of time, about what we need to worry about. So, right now, we are saying that we need to worry about the economic and commercial factors, and I agree that we have not given enough emphasis to this. But you could end up in a future world, for instance, characterized by regional blocs. You could end up with the kind of political instability that leads to paranoiac actions by various countries, that leads to a

breakdown of the international order, and then you end up with a security problem rather than a commercial or economic problem.

REPRESENTATIVE HAMILTON. Now, what I would like you to do, we have this trend, the relative decline of the United States in the Asian-Pacific region. You all agree that it is a pretty serious matter, which you would like to see reversed. You all spoke to this question, which I am going to ask in your statements, but I want to sharpen it as much as I can. What really ought we to do now to reverse that trend?

You are sitting down in a room with the newly elected President of the United States on November 4, and you are telling him exactly what you think we ought to do with respect to this. What do you tell him?

MR. CRONIN. Well, I will be first, because as a CRS analyst I don't make policy prescriptions—that is not my job.

REPRESENTATIVE HAMILTON. But that is the question I am asking you, though.

MR. CRONIN. I can be briefer. Today, we are talking about the fact that we have not focused enough on Asia and on promoting our interests in Asia, but I would say, if you really want to get down to the nitty gritty of what the United States has to do to improve its position there, it starts at home. It starts with getting the numbers right here, in terms of our productivity growth, in terms of investment—

REPRESENTATIVE HAMILTON. You are focusing on the American economy?

MR. CRONIN. That is right. Because we have enormous assets here. I mean, we still have a lot to offer other countries in terms of trade and economic ties.

REPRESENTATIVE HAMILTON. Are you saying, in order to strengthen our position in Asia, in an economic sense, the most important thing to do is to get the fundamentals of our policies here?

MR. CRONIN. That is right.

REPRESENTATIVE HAMILTON. I think we can all agree with that. What else would you tell him?

MR. CRONIN. You need a way to better coordinate our policies and to acquire a strategy for promoting our economic and commercial interests.

REPRESENTATIVE HAMILTON. Are you saying by that that we are not very well structured to deal with this problem?

MR. CRONIN. I said that in my statement, yes, sir.

REPRESENTATIVE HAMILTON. So what do we need to do?

MR. CRONIN. Again, there are a number of proposals that have been made, for instance—

REPRESENTATIVE HAMILTON. I am asking for your proposal.

MR. CRONIN. My proposal is basically that—sitting where I am—we need to restructure our government in a way that brings all these things together under some centralized way of looking at them.

REPRESENTATIVE HAMILTON. What does that mean?

MR. CRONIN. It could mean several things. It could mean that you deal with them at an NSC level; it could mean that the Cabinet deals with these issues differently; it could mean that Congress structures itself differently.



REPRESENTATIVE HAMILTON. We have a very widely disbursed economic policymaking mechanism in this government, and you are saying that have to bring it together in an economic security council, or something of that sort?

MR. CRONIN. Something like that.

REPRESENTATIVE HAMILTON. So we deal with the various strands of economic policymaking at one place in the government instead of twenty?

MR. CRONIN. The left hand knows what the right hand is doing. But recognizing, of course, that we are also a very heterogeneous country, that there are lots of interest groups with different perspectives, and they have to be listened to. We are a democratic country; we can't ram things down people's throats. But we do need more coordination, I think.

REPRESENTATIVE HAMILTON. All right.

Anything else you are going to tell him? I don't want to pick on you alone. Let's pick on the others a little bit.

MR. DRISCOLL. If I were asked by the incoming President what to do, I would argue that first thing he should do is to appoint an international economic council, parallel to the National Security Council, with the same level of influence and clout in the Administration. Its task would be to bring together all of the disparate elements of our trade policy, from the Treasury Department, USTR, State Department, Commerce Department, all the other agencies involved. It would provide a mechanism for the White House to ensure that our economic interests are equal to our security interests.

The second thing I would do is to advise the President that we act immediately in the Asia-Pacific region to counter the perception that the United States is walking away from the region. That perception persists, even though, it may not be true. I think the statistics tell us it really isn't true—we are at least holding our own.

REPRESENTATIVE HAMILTON. How do you do that?

MR. DRISCOLL. I have come up with some specific ideas in my testimony. We need to move immediately on a U.S.-ASEAN free-trade agreement or on a broader U.S.-Asian-Pacific free-trade agreement. I am certainly in favor of a broader one, but we do have to start somewhere. I am in favor of starting with ASEAN and building it to the entire region.

REPRESENTATIVE HAMILTON. We should initiate negotiations for a broader free-trade agreement with Asia?

MR. DRISCOLL. That would be a first and important step. We have to recognize that it is going to take longer than perhaps one term of a President to negotiate that, given the disparate interests. But there are a lot of goals that can be gained in that process, in terms of market opening, greater market access, lowering of barriers that are important to American business.

The third element that I would push or suggest to the new President is that we have to have a clear effort to make sure that our American companies can and do compete, and that is not simply on the policy side. The United States should provide the kinds of support mechanisms, whether it is through the Trade and Development Program, the Agency for International Development and their programs overseas, or through the Commerce Department.

Overall, the United States is underrepresented when it comes to commercial presence. If you compare the U.S. and Foreign Commercial Service and

the Japanese Ministry of International Trade personnel, they have nearly 20 times as many trade officers in the United States as we have in Japan. I think we have to try to do some rectifying and balancing of that.

REPRESENTATIVE HAMILTON. Our government is not supportive strongly enough of American business interests in the region; is that correct?

MR. DRISCOLL. Yes.

REPRESENTATIVE HAMILTON. We don't design the AID program in such a way that it encourages American business.

MR. DRISCOLL. We are moving in that direction, and in the AID program there are certainly some laudable efforts, including the Asian Environmental Partnership. This is one program that is pushing very hard in using U.S. Government financing to aid American exports and businesses. But we need to be much more conscious of how to do that.

MR. PATRICK. I support the statements of both of my fellow panel members. In addition, I would say, about a broad Pacific-basin free-trade area, it is a second best solution to a global system that is strengthened. I would like to see a strengthened GATT, a successful Uruguay Round. However, I don't think the Uruguay Round is either going to be a success or a failure; it is going to meander along, which suggests we will continue future multilateral negotiations, but also have a regional strategy. And in that sense, I support some sort of a Pacific free-trade area, with the idea that it is open and will not be exclusionary, but will be aimed at trying to support a multilateral system.

Second, I would add that we simply have to give higher priority to the Asia-Pacific region in U.S. foreign policy. In a sense, we have been very fortunate that it hasn't been a squeaky wheel and we haven't needed to do very much, but I think that that has led to the Asian fear that we are walking away from the region.

REPRESENTATIVE HAMILTON. Why do you think we have not?

MR. PATRICK. That is a very subtle question, and I don't know why we have not paid more attention to Asia at the highest level. As I say, it may be partly the squeaky wheel phenomenon.

There are a lot of diplomatic and other exciting things that have gone on elsewhere in the world. The point was made that we have paid a lot of attention to Eastern Europe. Eastern Europe, excluding the former Soviet Union, has a population that adds up to about one-third of that of ASEAN, and a GNP that is not particularly large, and has growth prospects that are not particularly good. That reflects our continuing geopolitical concerns, and I am not saying that we shouldn't be worried about Eastern Europe. I am saying that it reflects how little attention we have paid to other parts of the world.

Particularly, I think we have tended to take Japan for granted, and assumed that they will just automatically support our policy. We have not been nurturing that relationship. In fact, we have been harassing that relationship and threatening it. And I think it is very unfortunate that that kind of atmosphere has been created, and I think Congress gets a lot of blame for creating that atmosphere, frankly. I would like to see a more constructive approach to figuring out how we should deal, since we are going to be—

REPRESENTATIVE HAMILTON. Does the Executive Branch get any blame for that?

MR. PATRICK. Sure. I blame everybody. I blame the Japanese, too. I don't think they have managed the relationship very well.

REPRESENTATIVE HAMILTON. Let's take a look at the phrase, "Give higher priority to." What do you really mean by that?

MR. PATRICK. I think it would have been very useful in President Bush's trip, which started off not so badly, that it had not ended up in Tokyo with a focus only on automobiles and jobs.

REPRESENTATIVE HAMILTON. Do you mean that, in part, high-level officials—the President, the Secretary, and so forth—need to speak about these regions more, visit these regions more?

MR. PATRICK. Yes. That is what I have in mind. Show the American flag at the highest level in the region more, and then carry it through at an operational level, as well.

REPRESENTATIVE HAMILTON. I don't want to interrupt you. You have some other suggestions on policy?

MR. PATRICK. I will wait for your question.

REPRESENTATIVE HAMILTON. I am going to switch away here.

MR. PATRICK. Let me, then, make one other point. So far, we don't have a security problem in the region. So far, we have tended to handle the security issue by a series of bilateral relationships. We need some new thinking about security.

It is clear that everybody in Asia wants the United States to be the guarantor of peace and stability, at least external, and I think we can do that at very low cost. It would enhance our presence and enhance our commercial capabilities as well, because the idea that the United States has a commitment to the region, in a security sense, does spill over in terms of the economic and commercial policies of those countries towards our businesses. So I think this is an area that we are going to have to pay attention to in the future.

MR. CRONIN. I would agree with that, particularly the Japan-Korean-U.S. relationship. The Korean peninsula is probably the most potentially unstable part of Northeast Asia, and both the Japanese and Koreans eye each other very warily these days. Both, I think, want to see a U.S. involvement and a U.S. role as an honest broker between the two.

REPRESENTATIVE HAMILTON. Suppose an American President or Secretary of State goes into Asia and starts talking about democracy and human rights, and rule of law, and so forth. Is that going to hurt our economic position in that area of the world?

MR. DRISCOLL. Is that all he talks about.

REPRESENTATIVE HAMILTON. He can talk about that if he puts it in the framework of economic interests, as well?

MR. DRISCOLL. He has to put it in the framework of broader economic interests in the Asia-Pacific region, not focusing solely and exclusively on one particular element. I think you have to look at our interaction in the broader context.

REPRESENTATIVE HAMILTON. I wanted to ask, Japan has no vision for the international economic order. Who said that?

MR. PATRICK. I said that.

REPRESENTATIVE HAMILTON. What do you mean by that? They just are out for the buck or the yen, is that what you mean?

MR. PATRICK. They don't really have any concept of what kind of national economic system that they would like to have, or a political system.

REPRESENTATIVE HAMILTON. Why don't they? My goodness, they are a powerful economic power. Why haven't they thought about that?

MR. PATRICK. Because the economic power is decentralized among businessmen who don't have those kinds of strategic visions in any country that I know of.

REPRESENTATIVE HAMILTON. Should we encourage greater Japanese role in the World Bank?

MR. PATRICK. Yes.

REPRESENTATIVE HAMILTON. Is it in the American national interest to do that?

MR. PATRICK. Yes, because that is one way of strengthening our relationship with Japan. The interesting thing about those initiatives, on the part of the Japanese, is that they are really attempts to acquire status and so forth. They are not trying to rock the boat or change policy in any substantial way. They simply want to be recognized and appreciated.

REPRESENTATIVE HAMILTON. Do you agree with that, Dr. Cronin?

MR. CRONIN. I think the Japanese have a general strategy towards Asia, something they are not wholly agreed on. There are some differences between the Ministry of International Trade and Industry and the Foreign Ministry, and within those ministries. But in general, they are looking, as much as possible, for a complimentary development of the Asian-Pacific region.

But I would just add the point that we didn't have a strategy, a global outlook, the ability to play the role of a global leader, until we fought a great war on a global scale, until we created the vast organizations of government to deal with national security issues, to prioritize our objectives, etc. And we ended up with a policy after the war, a very vigorous and clear-cut kind of policy. The Japanese haven't been through this experience. So they are, in a lot of ways, like the United States in the 1920s and 1930s. We were very powerful economically, a great force on the world scene, but it was all very decentralized, and based on individual actions of individual companies. The Japanese just haven't had the need to focus their attention, or to organize themselves.

REPRESENTATIVE HAMILTON. We have run out of time. We have had a good discussion. I want to give you time to make any concluding remarks if you feel there are some loose threads, or you have said all you want to say.

MR. PATRICK. There are lots of loose threads, but that would take another two days. On the other hand, I think we have covered a lot of material.

REPRESENTATIVE HAMILTON. It has been a good discussion. I thank you for your statements and for your participation. You have been very helpful to us.

The Committee stands adjourned.

[Whereupon, at 12:15 p.m., the Committee adjourned, subject to the call of the Chair.]